Central & Eastern European Strategy

4th quarter 2014

EU worries top geopolitical relief

- Robust CE growth, weakness in SEE and CIS
- Backing for LCY bonds, weak EUR bounds FX gains
- CIS credits: Focus on non-sanctioned entities
- Positive year end expectations for equities

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Central & Eastern European Strategy

Explanation:
e ... estimate
f ... forecast
p ... preliminary figures
n.v. ... no value

Abbreviations

Currencies and Countries

ALL	Albanian lek
BAM	Bosnian marka
BGN	Bulgarian lev
BYR	Belarusian roubel
CZK	Czech koruna
EKK	Estonian kroon
HUF	Hungarian forint
HRK	Croatian kuna
LTL	Lithuanian litas
LVL	Latvian lats
PLN	Polish zloty
RON	Romanian leu
RSD	Serbian dinar
RUB	Russian rouble
TRY	Turkish lira
UAH	Ukrainian hryvnia

Economic abbreviations

%-chg	Percentage change (not in percentage points)
avg	average
bp	basis points
C/A	Current Account
CPI	Consumer Price Index
FCY	Foreign Currency
FDI	Foreign Direct Investments
FX	Foreign Exchange
FY	Full year
GDP	Gross Domestic Product
HCPI	Harmonized Consumer Price Index
LCY	Local Currency
mmav	month moving average
mom	month on month
O/N	overnight rate
pp	percentage points
PPI	Producer Price Index
qoq	quarter on quarter
T/B	Trade Balance
ULC	Unit Labour Costs
yoy	year on year
ytd	year-to-date

Stock Exchange Indices

BELEX15	Serbian stock index
BET	Romanian stock index
BUX	Hungarian stock index
CROBEX10	Croatian stock index
PX	Czech stock index
MICEX	Russian stock index
SASX-10	Bosnian stock index
WIG 20	Polish stock index

Equity related

DY	Dividend yield
EBIT	Earnings before interest and taxes
EBITDA	earnings before interest, taxes, depreciation, and amortization
EBT	earnings before taxes
EPS	earnings per share
EG	Earnings growth
LTG	Long term (earnings) growth
NIBD	Net interest bearing debt
P/B	Price book ratio
P/E ratio	Price earnings ratio
RoE	Return on equity
ROCE	Return on capital employed
RS	Recommendation suspended
UR	Under Revision

Euro area	*Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovenia, Slovakia, Spain*
CE	*Central European countries - Poland, Hungary, Czech Republic, Slovakia, Slovenia*
SEE	*South East European countries - Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Romania, Serbia*
CIS	*European CIS (Commonwealth of Independent States) countries - Russia, Ukraine, Belarus*
CEE	*Central and Eastern Europe (CE + SEE + CIS)*

Please note the risk notifications and explanations at the end of this document

Varying political and economic developments in CEE

- **Elevated geopolitical tensions with differing effects in CE, SEE, and CIS**
- **Russia and Ukraine in structural crises, regardless of the conflict between them**
- **Low inflation and ECB monetary policy offer more leeway for interest rates in CE**

Since the summer, the deterioration of the Ukraine conflict between Russia on the one hand and the West on the other has resulted in a spiral of sanctions, which has seriously dampened business confidence in Central and Eastern Europe as well. Nevertheless, our baseline scenario for the next 3-6 months does not foresee any further escalation of mutual sanctions. However, the small adjustments to our GDP forecasts in some individual countries are mainly due to the more cautious approach of companies and consumers. With the exception of Romania, essentially nothing has changed in terms of our optimistic expectations for 2015. By contrast, the prospects for Russia and Ukraine are still gloomy, and thus we have reduced our GDP forecasts for 2015 for these countries again. Russia is facing a long process of adjustment in conjunction with a waning propensity to consume. Ukraine must now attempt to reorganise its regional and economic structure. GDP growth in Austria has also been disappointing. Domestic demand components remain slack and this has a negative impact on the GDP forecasts for 2014 and 2015.

In contrast to this, economic activity in much of Central Europe is being borne by a recovery in domestic demand. We are confident that economic growth rates in Poland, the Czech Republic, Hungary and Slovakia will remain at this level until 2016. As the lack of price pressure is lasting somewhat longer than expected, inflation will generally only start to rise in 2015. Consumer prices in Austria are not expected to change much: for 2015, we project that the HICP will increase by 1.7%. In Russia and Ukraine, however, inflation rates have jumped higher, due to the steep depreciation of their respective currencies. In the latter country, inflation still may range in the double digits in 2015.

Impact on monetary policy and exchange rates

The leeway opened up by the ECB's ultra-expansive monetary policy and the delay in any rises in inflation have triggered further speculation about interest rate cuts in countries such as Poland and Romania. In 2015, we expect there to be a long phase of bottoming out in key rates and money market rates. In Russia, however, the massive weakening of the rouble could lead to further rate hikes in the autumn. Nevertheless, these will probably not be completely adequate to prevent depreciation against the ever firmer USD. As the euro is also weakening against USD, the rouble may be able to stabilise versus EUR. With regard to the Ukrainian hryvnia (UAH), the currency may still depreciate by more than 10 per cent. Exchange rates for the other currencies versus the euro will probably stay rather stable.

Impact on the bond and equity markets

Bond yields in Eastern Europe developed along very different paths in Q3. Poland, the Czech Republic and Romania were able to profit from the yield declines in the euro area, thanks to their fundamentals. Russia, Turkey and Hungary saw yields rise. In the next 3-6 months we do not anticipate any significant movements in yields. Developments on the CEE stock exchanges (with the exception of Turkey, which posted gains) also varied. By end-2014, we expect to see modest increases in the equity indices across the region. We believe that Romania, Turkey and Czech Republic will lead the pack. Due to the geopolitical and economic situation, we see sub-average potential for Russia and Croatia.

Financial analyst: Peter Brezinschek

MARKET STRATEGY*

	Eurobonds		LCY Bonds		FX
	EUR	USD	2y	10y	–
BG	H (H)	–	–	–	–
HR	S (S)	S (S)	–	–	H (S)
CZ	H (H)	H (H)	H (H)	H (H)	H (H)
HU	B (B)	B (B)	H (H)	H (H)	H (S)
PL	B (B)	B (H)	B (H)	B (H)	H (H)
RO	B (H)	H (H)	B (H)	B (H)	H (H)
RU	H (H)	H (H)	B (S)	H (S)	H (S)
RS	–	H (B)	–	–	S (H)
SK	–	–	–	–	–
SI	–	–	–	–	–
TR	B (B)	B (H)	B (H)	H (H)	H (B)
UA	S (H)	S (S)	–	–	S (H)
BY	–	H (H)	–	–	S (S)

**based on absolute expected performance:*
- LCY bond: absolute performance in LCY
- Eurobonds: based on expected spread change
RU, TR, UA, BY FX recomm. against USD, others against EUR
Previous recomm. (as of June 2014) in brackets
Horizon: **end 4th quarter 2014**
B: buy; H: hold; S: sell
Source: RBI/Raiffeisen RESEARCH

Recommendations[1] - stock markets

Indices	
Buy	ATX, BET, WIG 20, BUX, PX, BIST Nat. 100
Hold	MICEX, CROBEX 10
Sell	-

Equities

Andritz
Current share price: EUR 41.77[2]
Target price: EUR 47.00
UNIQA
Current share price: EUR 8.43[2]
Target price: EUR 10.80
PKP Cargo
Current share price: PLN 76.28[2]
Target price: PLN 90.00
PKO BP
Current share price: PLN 39.80[2]
Target price: PLN 47.00
VimpelCom
Current share price: USD 8.38[2]
Target price: USD 11.30

Recommendations[1] – debt markets

Corporate bonds	
Buy	Gazprom 5.999% due 2021
Buy	Halyk 7.25% due 2017

[1] horizon: **end 4th quarter 2014**
[2] the indicated price is the last price as available at 6.30 a.m. (CET) on 16 September 2014
[3] unhedged (performance in EUR)
Source: RBI/Raiffeisen RESEARCH

Real GDP (% yoy)

Countries	2013	2014e	Consensus	2015f	Consensus	2016f	Consensus
Poland	1.6	3.1	3.2	3.2	3.4	3.4	3.7
Hungary	1.1	3.0	3.1	2.5	2.3	2.3	2.2
Czech Rep.	-0.9	2.6	2.6	2.4	2.6	3.0	2.9
Slovakia	0.9	2.7	2.4	3.0	2.9	3.5	3.1
Slovenia	-1.1	1.5	0.9	1.0	1.0	1.8	1.4
CE	**0.8**	**2.9**	2.9	**2.8**	2.9	**3.1**	3.1
Croatia	-0.9	-0.8	-0.6	0.0	0.5	1.0	1.5
Bulgaria	0.9	1.7	1.6	3.0	2.3	3.2	3.0
Romania	3.5	2.0	2.5	2.7	3.2	3.0	3.3
Serbia	2.5	-0.5	-0.2	1.0	1.5	2.5	2.9
Bosnia a. H.	2.1	0.0	0.5	3.5	2.9	3.5	3.0
Albania	0.4	2.0	1.8	3.0	2.6	4.5	3.0
Kosovo	3.1	3.0	n.a.	3.5	n.a.	3.5	n.a.
SEE	**2.2**	**1.2**	1.5	**2.2**	2.4	**2.8**	2.9
Russia	1.3	-0.3	0.1	0.5	0.8	1.0	2.0
Ukraine	0.0	-7.0	-6.5	-2.0	0.6	3.0	2.2
Belarus	0.9	0.5	1.1	1.5	2.0	2.0	2.5
CIS	**1.2**	**-0.8**	-0.4	**0.3**	0.8	**1.2**	2.0
Turkey	4.1	3.5	3.0	3.5	3.5	3.5	4.2
Austria	**0.3**	**0.9**	1.2	**1.2**	1.7	**1.9**	1.8
Germany	0.2	1.5	1.7	2.0	1.8	2.5	1.8
Euro area	**-0.4**	**0.8**	0.9	**1.6**	1.4	**1.9**	1.7
USA	**2.2**	**2.2**	2.1	**3.2**	3.1	**3.2**	2.9

Source: Thomson Reuters, Bloomberg, Consensus Economics, Bloomberg, RBI/Raiffeisen RESEARCH

Consumer prices (avg, % yoy)

Countries	2013	2014e	2015f	2016f
Poland	0.9	0.3	1.7	2.7
Hungary	1.7	0.3	2.2	3.2
Czech Rep.	1.4	0.5	1.9	2.2
Slovakia	1.4	0.0	1.0	2.0
Slovenia	1.8	0.1	0.9	1.3
CE	**1.2**	**0.3**	**1.7**	**2.5**
Croatia	2.2	0.0	1.5	1.9
Bulgaria	0.9	-0.7	2.7	3.2
Romania	4.0	1.2	2.2	2.8
Serbia	7.8	5.5	5.5	5.0
Bosnia a. H.	-0.1	-0.3	2.5	2.5
Albania	1.9	1.8	2.5	2.8
Kosovo	1.8	0.4	1.0	2.0
SEE	**3.4**	**1.2**	**2.5**	**2.9**
Russia	6.8	7.3	6.2	5.7
Ukraine	-0.2	11.3	13.0	9.0
Belarus	18.3	21.0	20.0	15.0
CIS	**6.6**	**8.0**	**7.1**	**6.2**
Turkey	7.5	9.0	8.3	7.0
Austria	**2.1**	**1.5**	**1.7**	**1.9**
Germany	1.6	1.0	2.0	2.5
Euro area	**1.4**	**0.5**	**1.1**	**1.4**
USA	**1.5**	**1.9**	**2.2**	**2.5**

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Current account balance (% of GDP)

Countries	2013	2014e	2015f	2016f
Poland	-1.4	-0.3	-1.1	-2.6
Hungary	3.0	3.5	3.5	3.5
Czech Rep.	-1.4	0.4	0.3	0.0
Slovakia	2.2	1.8	1.6	1.3
Slovenia	6.5	6.4	5.0	4.2
CE	**-0.1**	**0.9**	**0.3**	**-0.7**
Croatia	0.9	1.2	0.9	-0.2
Bulgaria	1.9	1.7	-0.5	-0.8
Romania	-1.1	-1.7	-2.2	-2.7
Serbia	-6.5	-5.6	-6.7	-7.5
Bosnia a. H.	-5.5	-8.1	-11.1	-10.4
Albania	-10.4	-10.3	-11.0	-10.1
Kosovo	-6.9	-7.5	-7.6	-6.6
SEE	**-1.6**	**-1.9**	**-2.8**	**-3.3**
Russia	1.6	2.7	2.9	2.8
Ukraine	-9.0	-3.2	-3.2	-3.6
Belarus	-10.2	-5.4	-5.8	-6.8
CIS	**0.4**	**2.1**	**2.2**	**2.0**
Turkey	-7.9	-5.2	-5.3	-5.3
Austria	**2.7**	**2.3**	**2.2**	**1.8**
Germany	7.5	7.0	6.5	6.0
Euro area	**2.4**	**2.3**	**2.4**	**1.0**
USA	**-2.3**	**-2.6**	**-2.9**	**-2.9**

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

General budget balance (% of GDP)

Countries	2013	2014e	2015f	2016f
Poland	-4.3	-3.2	-2.7	-2.0
Hungary	-2.3	-2.9	-2.9	-2.9
Czech Rep.	-1.5	-1.5	-2.1	-1.9
Slovakia	-2.8	-2.6	-2.5	-1.4
Slovenia	-14.7	-5.0	-4.0	-4.0
CE	**-3.8**	**-2.9**	**-2.6**	**-2.2**
Croatia	-4.9	-4.8	-4.5	-4.1
Bulgaria	-1.9	-2.2	-1.8	-1.1
Romania	-2.3	-2.3	-2.3	-2.3
Serbia	-4.8	-8.0	-7.0	-5.5
Bosnia a. H.	-2.2	-2.5	-2.0	-1.5
Albania	-6.0	-6.6	-4.5	-3.5
Kosovo	-2.7	-2.0	-2.0	-2.0
SEE	**-3.0**	**-3.5**	**-3.1**	**-2.8**
Russia	-1.0	-0.8	-0.6	-0.2
Ukraine	-6.5	-10.0	-6.0	-4.0
Belarus	0.2	0.0	0.0	0.0
CIS	**-1.4**	**-1.5**	**-1.0**	**-0.5**
Turkey	-1.2	-2.3	-2.2	-2.0
Austria	**-1.5**	**-2.6**	**-1.4**	**-0.9**
Germany	0.0	0.0	0.0	0.5
Euro area	**-3.0**	**-2.5**	**-2.3**	**-2.0**
USA	**-4.1**	**-3.0**	**-2.6**	**-2.8**

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Public debt (% of GDP)

Countries	2013	2014e	2015f	2016f
Poland	57.0	49.4	50.0	48.4
Hungary	79.2	81.6	80.5	79.3
Czech Rep.	46.0	45.8	45.8	45.5
Slovakia	55.4	55.4	55.4	53.4
Slovenia	73.0	76.0	78.0	79.0
CE	**58.3**	**54.8**	**55.0**	**53.8**
Croatia	66.7	72.0	75.4	77.3
Bulgaria	19.0	22.0	22.0	20.0
Romania	38.4	39.1	39.4	39.4
Serbia	63.0	69.8	74.7	76.9
Bosnia a. H.	41.5	42.5	41.5	39.5
Albania	68.0	72.0	70.0	69.0
Kosovo	20.0	22.0	22.0	22.0
SEE	**43.6**	**46.1**	**47.3**	**47.4**
Russia	11.3	11.5	12.0	13.0
Ukraine	40.3	65.0	70.0	69.0
Belarus	32.5	34.4	36.0	37.0
CIS	**14.2**	**16.3**	**17.1**	**18.0**
Turkey	39.8	37.0	36.0	35.0
Austria	**74.5**	**80.8**	**79.9**	**77.9**
Germany	78.4	77.3	74.5	71.0
Euro area	**92.6**	**93.6**	**93.1**	**92.5**
USA	**100.5**	**102.4**	**101.4**	**100.0**

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Gross foreign debt (% of GDP)

Countries	2013	2014e	2015f	2016f
Poland	71.0	69.3	69.3	66.2
Hungary	123.5	119.2	102.8	96.8
Czech Rep.	54.2	54.2	53.0	51.3
Slovakia	82.7	92.6	94.7	91.9
Slovenia	113.3	113.5	114.8	114.6
CE	**77.7**	**77.2**	**74.9**	**71.6**
Croatia	104.8	106.8	106.5	104.0
Bulgaria	93.5	92.1	82.4	76.4
Romania	67.5	62.7	62.6	62.3
Serbia	80.8	80.3	84.8	81.8
Bosnia a. H.	62.4	63.5	62.5	56.7
Albania	28.2	28.9	30.8	31.1
Kosovo	14.2	13.6	13.0	12.3
SEE	**75.8**	**73.3**	**72.1**	**69.8**
Russia	33.7	38.5	40.3	37.5
Ukraine	77.0	107.6	127.2	124.1
Belarus	52.7	52.8	52.3	51.4
CIS	**37.6**	**43.0**	**45.5**	**42.9**
Turkey	45.3	54.3	53.6	48.2
Austria	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Germany	n.a.	n.a.	n.a.	n.a.
Euro area	**n.a.**	**n.a.**	**n.a.**	**n.a.**
USA	**n.a.**	**n.a.**	**n.a.**	**n.a.**

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Exchange rate EUR/LCY (avg)

Countries	2013	2014e	2015f	2016f
Poland	4.20	4.18	4.13	3.97
Hungary	297	310	319	327
Czech Rep.	26.0	27.5	27.3	26.4
Slovakia	euro	euro	euro	euro
Slovenia	euro	euro	euro	euro
Croatia	7.58	7.63	7.65	7.66
Bulgaria	1.96	1.96	1.96	1.96
Romania	4.42	4.44	4.44	4.40
Serbia	113	117	122	124
Bosnia a. H.	1.96	1.96	1.96	1.96
Albania	140	140	140	140
Kosovo	euro	euro	euro	euro
Russia	42.3	48.0	47.8	49.3
Ukraine	10.8	15.6	17.0	17.4
Belarus	11,828	13,696	14,220	16,185
Turkey	2.53	2.92	2.74	2.76
Austria	**euro**	**euro**	**euro**	**euro**
Germany	euro	euro	euro	euro
USA	**1.33**	**1.34**	**1.20**	**1.20**

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Ratings[1]

Countries	S&P	Moody's	Fitch
Poland	A-	A2	A-
Hungary	BB	Ba1	BB+
Czech Rep.	AA-	A1	A+
Slovakia	A	A2	A+
Slovenia	A-	Ba1	BBB+
Croatia	BB	Ba1	BB
Bulgaria	BBB-	Baa2	BBB-
Romania	BBB-	Baa3	BBB-
Serbia	BB-	B1	B+
Bosnia a. H.	B	B3	not rated
Albania	B	B1	not rated
Kosovo	not rated	not rated	not rated
Russia	BBB-	Baa1	BBB
Ukraine	CCC	Caa3	CCC
Belarus	B-	B3	not rated
Turkey	BB+	Baa3	BBB-
Austria	**AA+**	**Aaa**	**AAA**
Germany	AAA	Aaa	AAA

[1] *for FCY, long-term debt*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Please note the risk notifications and explanations at the end of this document

Exchange rate forecast

Countries vs EUR	15-Sep[1]	Dec-14	Mar-15	Sep-15
Poland	4.20	4.15	4.15	4.10
Hungary	314.38	315.0	315.0	320.0
Czech Rep.	27.55	27.6	27.5	27.2
Croatia	7.62	7.68	7.66	7.65
Romania	4.41	4.45	4.40	4.45
Serbia	119.09	121.0	123.0	121.0
Albania	140.14	139.5	141.0	140.5
vs USD				
Russia	38.3	38.1	39.4	40.4
Ukraine	12.96	13.50	14.00	14.40
Belarus	10505	11000	11400	12300
Turkey	2.21	2.25	2.28	2.28
EUR/USD	1.29	1.26	1.23	1.17

[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Key interest rate forecast

Countries	15-Sep[1]	Dec-14	Mar-15	Sep-15
Poland	2.50	2.00	2.00	2.00
Hungary	2.10	2.10	2.10	2.10
Czech R.	0.05	0.05	0.05	0.05
Romania	3.25	2.75	2.75	2.75
Russia	8.00	8.50	8.50	8.50
Turkey	8.25	7.75	7.75	7.75
Euro area	0.05	0.05	0.05	0.05
USA	0.25	0.25	0.50	1.50

[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

3m money market rate forecast

Countries	15-Sep[1]	Dec-14	Mar-15	Sep-15
Poland	2.27	2.15	2.20	2.20
Hungary	2.11	2.65	2.70	2.75
Czech R.	0.04	0.10	0.10	0.20
Croatia	0.73	1.12	0.90	1.00
Romania	2.36	1.60	1.60	2.20
Russia	10.20	10.80	10.50	10.70
Turkey	9.05	8.50	8.70	8.60
Euro area	0.08	0.10	0.10	0.10
USA	0.23	0.45	0.70	1.70

[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

2y LCY yield forecast

Countries	15-Sep[1]	Dec-14	Mar-15	Sep-15
Poland	2.07	1.9	2.1	2.3
Hungary*	3.20	3.0	3.2	3.7
Czech R.	0.16	0.2	0.3	0.6
Croatia	2.05	2.6	2.6	2.7
Romania	2.68	2.4	2.4	2.9
Russia	9.18	8.8	8.8	8.8
Turkey	8.87	8.4	8.6	8.6
Austria	-0.03	-0.1	-0.1	0.1
Germany	-0.08	-0.1	-0.1	0.0
USA	0.54	0.7	1.2	2.1

[1] 5:00 p.m. (CET); * 3y LCY yields
Source: Bloomberg, RBI/Raiffeisen RESEARCH

5y LCY yield forecast

Countries	15-Sep[1]	Dec-14	Mar-15	Sep-15
Poland	2.45	2.2	2.5	2.7
Hungary	3.70	3.3	3.5	4.1
Czech R.	0.41	0.5	0.6	0.9
Croatia	3.50	3.7	3.7	3.9
Romania	3.39	3.2	3.2	3.6
Russia	9.32	9.0	9.0	9.0
Turkey	8.90	8.6	8.7	8.7
Austria	0.26	0.3	0.4	0.7
Germany	0.22	0.2	0.3	0.6
USA	1.79	2.0	2.6	3.4

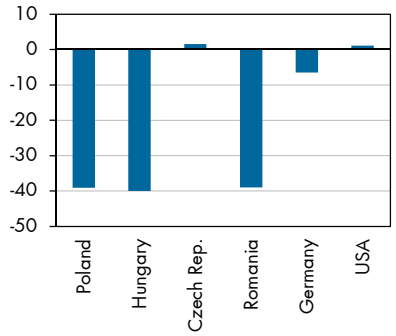
[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

10y LCY yield forecast

Countries	15-Sep[1]	Dec-14	Mar-15	Sep-15
Poland	3.17	2.8	3.0	3.2
Hungary	4.70	4.3	4.6	5.2
Czech R.	1.18	1.2	1.5	1.7
Croatia	3.57	4.3	4.0	4.2
Romania	4.39	4.0	4.0	4.4
Russia	9.69	9.8	9.8	10.0
Turkey	9.02	8.7	8.8	8.8
Austria	1.27	1.2	1.3	1.6
Germany	1.07	1.0	1.2	1.5
USA	2.59	2.6	3.1	3.8

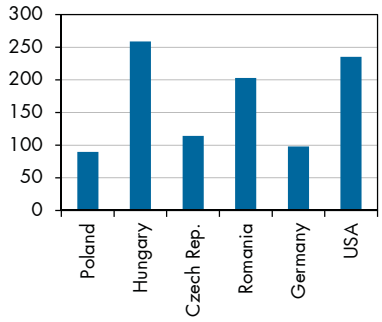
[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Expected yield change



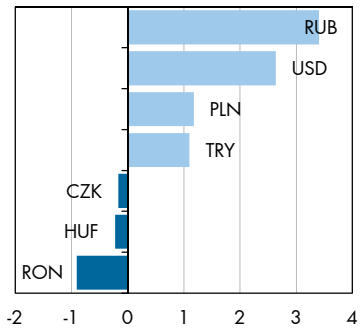
bp-change of 10y gov. bond yield in next 3 months
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Yield structure



bp-spread between 10y and 3m maturity
Source: Bloomberg, RBI/Raiffeisen RESEARCH

LCY changes vs. EUR (% qoq)[1]



[1] forecasts for 31/12/2014 in comparison to 15/09/2014
Source: Bloomberg

Stock market indicators

	Earnings growth		Price/earnings ratio	
	14e	15f	14e	15f
ATX	-4.2%	61.8%	17.5	10.8
WIG 20	0.0%	5.7%	14.3	13.5
BUX	-32.3%	37.7%	13.8	10.0
PX*	32.9%	1.3%	13.2	13.1
MICEX	7.7%	1.7%	5.0	5.0
BET**	-2.9%	9.2%	17.5	16.0
CROBEX10	-26.1%	1.6%	31.0	30.5
BIST Nat. 100	0.9%	17.0%	11.2	9.6

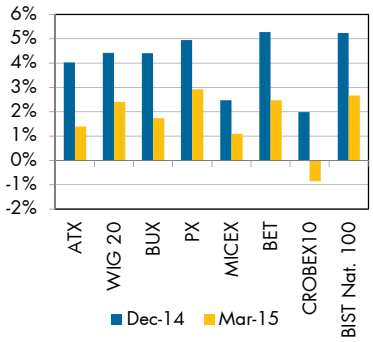
* Czech Rep. (PX): excl. Orco Property Group, New World Resources and Erste Group
** Romania (BET) excl. Fondul Proprietatea
Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

Stock market forecasts

	Index estimates			
	15-Sep[1]	Dec-14	Mar-15	Sep-15
ATX	2,288	2,380	2,320	2,450
WIG 20	2,490	2,600	2,550	2,650
BUX	18,676	19,500	19,000	20,000
PX	991	1,040	1,020	1,060
MICEX	1,454	1,490	1,470	1,550
BET	7,124	7,500	7,300	7,600
CROBEX10	1,059	1,080	1,050	1,100
BIST Nat. 100	77,918	82,000	80,000	83,000

[1] 11:59 p.m. (CET)
in local currency
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Expected index performance



Source: RBI/Raiffeisen RESEARCH

Raiffeisen RESEARCH

CEE portfolio performs well in difficult environment

- **Equity segment buffeted by geopolitical developments**
- **Relatively positive performance by the Romanian equity market**
- **Solid performance by local currency bonds**

Sum of last quarter[1]

RBI portfolio (in EUR)	-0.88%
Benchmark (in EUR)	-0.94%
RBI outperformance (in EUR)	0.05%
by weighting of equities vs. bonds	0.00%
regional equity weightings	0.01%
weighting of EB vs. LCY bonds	0.00%
country weightings of LCY bonds	0.04%
country weightings of EB EUR	0.00%
country weightings of EB USD	0.00%
joint effects / duration	0.00%

1 20 June 2014 - 15 September 2014
EB...Eurobonds
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Period 1: 20 Jun 2014 - 28 Jul 2014

RBI portfolio (in EUR)	-2.37%
Benchmark (in EUR)	-2.41%
RBI outperformance (in EUR)	0.04%
by weighting of equities vs. bonds	0.00%
regional equity weightings	0.02%
weighting of EB vs. LCY bonds	0.00%
country weightings of LCY bonds	0.02%
country weightings of EB EUR	0.00%
country weightings of EB USD	0.00%
joint effects / duration	0.00%

EB...Eurobonds
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Period 2: 28 Jul 2014 - 26 Aug 2014

RBI portfolio (in EUR)	1.82%
Benchmark (in EUR)	1.81%
RBI outperformance (in EUR)	0.01%
by weighting of equities vs. bonds	0.00%
regional equity weightings	0.02%
weighting of EB vs. LCY bonds	0.00%
country weightings of LCY bonds	0.00%
country weightings of EB EUR	0.00%
country weightings of EB USD	0.00%
joint effects / duration	0.00%

EB...Eurobonds
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Period 3: 26 Aug 2014 - 15 Sep 2014

RBI portfolio (in EUR)	-0.33%
Benchmark (in EUR)	-0.33%
RBI outperformance (in EUR)	0.0%
by weighting of equities vs. bonds	0.00%
regional equity weightings	-0.03%
weighting of EB vs. LCY bonds	0.00%
country weightings of LCY bonds	0.02%
country weightings of EB EUR	0.00%
country weightings of EB USD	0.00%
joint effects / duration	0.00%

EB...Eurobonds
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

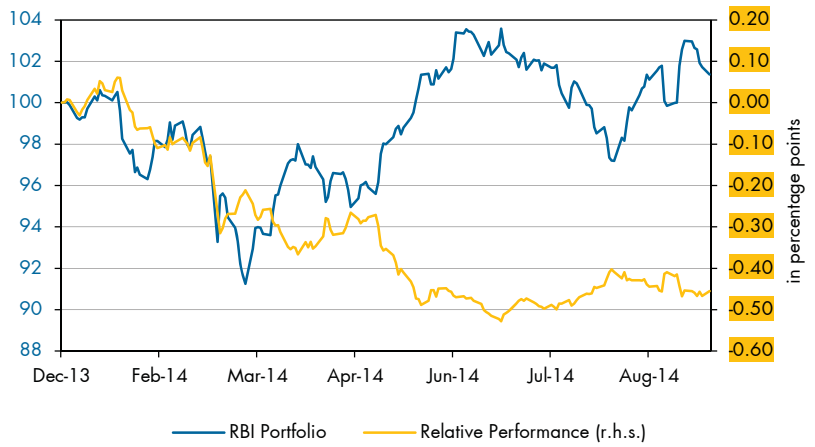
Market conditions in Q3 were very tough, due to the ongoing Ukraine crisis and worries about deflation in the euro area and some particular countries in CE. In order to be prepared for these uncertainties, the weighting of equities was neutral versus bonds in Q3. Compared to Q2, performance declined at the level of the overall portfolio. The benchmark has lost around 1% this quarter but is still showing a positive absolute performance of 1.81% ytd. In addition, the CEE portfolio outperformed the benchmark in Q3 by 5 basis points (bp) and is currently at 1.36% ytd, still behind the benchmark.

In the **equity segment**, Romania was overweighted for the entire quarter. During the first two investment periods this generated an outperformance of 2bp in each, which was then conceded again in the third period as equities lost part of their earlier gains. In the second investment period, Poland was also overweighted, with this position financed from Hungary. On the whole, this resulted in outperformance of over 1bp.

In the segment of local **currency bonds**, the overweighting of Romania against Russia during all of the investment periods resulted in outperformance of more than 3bp. In the third period, the overweighting of Poland was financed from Hungary, but did not have any tangible effect. All in all, the portfolio of LCY bonds posted modest outperformance of 4bp in Q3.

Financial analyst: Stefan Theußl

Performance 2014



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

CEE portfolio

	2012	2013	Year to date
Benchmark	21.90%	-2.54%	1.81%
Portfolio	21.07%	-2.41%	1.36%
Relative Performance	-0.83%	0.12%	-0.45%

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Potential upside for CEE equities

- **Additional liquidity provided by the ECB bolsters the equity markets**
- **Solid economic recovery anticipated in most CEE core countries**
- **Russia/Ukraine conflict continues to be a negative factor**

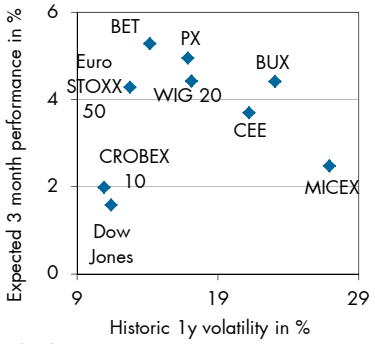
Despite a setback in economic dynamics in the euro area, solid economic growth is expected in most of the CEE core countries. One major factor behind this is the **supportive effect of the ECB's accommodative monetary policy**, along with a gradual (albeit slower) economic recovery in the EU economies. This should have a positive effect on the local financial markets and on the equity markets in particular.

The risk-reward profile of most **CEE equity markets** has remained stable compared to the last quarter: volatility has not deteriorated substantially and has actually declined somewhat. With signs of de-escalation being seen on both sides (e.g. cease-fire, delay of the economic portion of the EU-Ukraine Association Agreement), it may be possible to establish a basis for a diplomatic solution to the Russia/Ukraine conflict. Nevertheless, there is still uncertainty about the future course of the conflict, which is having a negative effect on the European financial markets in particular due to the close economic ties and the general deterioration in sentiment. All in all, this has resulted in a mixed picture in terms of risk tolerance.

In the **bond segment** we expect good performance to continue over the medium term. On the one hand, 10-year government bonds from the CEE core countries offer attractive yield premiums on average, compared to those in the developed markets. On the other hand, more rate cuts are expected here and there (e.g. in Romania, Poland and Turkey), which may additionally contribute to positive price performance. Nonetheless, due to the relatively attractive valuations on the CEE equity markets and the better chances to catch up in comparison to the bond segment, **we modestly overweight the equity segment at 3%**. It should be noted, however, that significant setbacks are also possible in conjunction with brief periods of elevated volatility (due to geopolitical tensions). Taking a medium to long-term perspective, the anticipated economic conditions point to good prospects for the CEE equity markets.

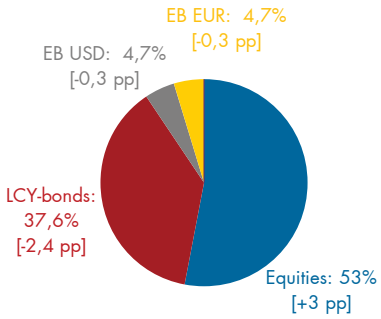
Financial analyst: Stefan Theußl

Risk-return (%)



In local currency
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

CEE portfolio weightings Q4 2014



LCY...local currency, EB ... Eurobonds
[-] , [+] = Over-/underweight versus benchmark
[0] = no change
Source: RBI/Raiffeisen RESEARCH

Historical volatility & performance (%)

	Equities[1]						Bonds					
	Volatility[2]		Performance ytd		Performance 5Y yoy[3]		Volatility[2]		Performance ytd		Performance 5Y yoy[3]	
Countries	EUR	LCY	EUR	LCY	EUR	LCY	EUR	LCY	EUR	LCY	EUR	LCY
Czech Republic	13.7	12.7	14.5	15.3	-5.0	-3.4	3.4	1.8	5.6	6.3	5.4	7.2
Hungary	19.5	16.5	-8.6	-3.3	-8.0	-5.3	8.9	5.2	1.4	7.3	6.8	10.0
Poland	15.6	14.0	4.5	5.5	4.8	5.0	5.9	3.3	6.6	7.5	7.6	7.8
Romania	12.6	11.3	12.2	10.9	9.9	10.7	3.2	0.5	2.3	1.1	3.7	4.4
Russia	24.8	18.9	-12.3	-6.7	0.8	2.0	15.4	6.9	-12.0	-3.4	5.8	8.0
Turkey	20.8	16.7	19.4	15.6	4.4	10.4	10.4	5.3	14.1	10.4	3.1	9.1
Croatia	9.3	9.1	-2.1	-2.2	-3.5	-2.7	5.0	5.0	7.0	7.0	7.3	7.3
CEE	15.1	-	1.8	-			4.8	-	4.6	-		

[1] MSCI indices
[2] Three months volatility annualised
[3] Five-year annual return
LCY...local currency
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

CEE Bonds: Attractive carry

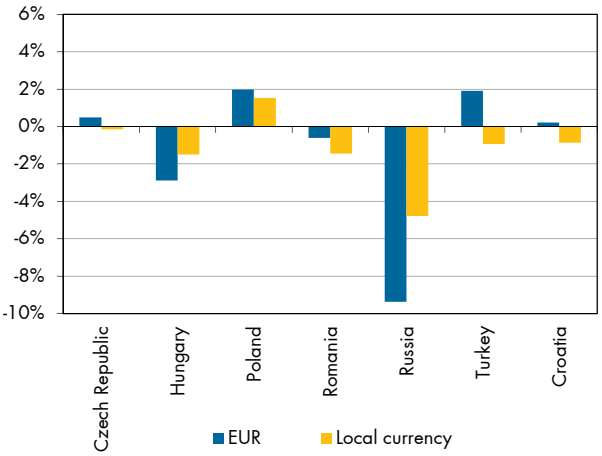
- **Rate-cutting cycle to continue**
- **Romania and Poland: currencies remain relatively stable**
- **Low yield levels in the Czech Republic**

Portfolio weightings: bonds

	Portfolio	Benchmark	Difference
EB USD	10.0%	10.0%	0.0%
EB EUR	10.0%	10.0%	0.0%
LCY	80.0%	80.0%	0.0%
Czech Republic	18.0%	20.0%	-2.0%
Hungary	20.0%	20.0%	0.0%
Poland	46.0%	45.0%	1.0%
Romania	6.0%	5.0%	1.0%
Russia	5.0%	5.0%	0.0%
Turkey	5.0%	5.0%	0.0%
Croatia	0.0%	0.0%	0.0%

Source: RBI/Raiffeisen RESEARCH

Historical relative performance*



** since 3 months, local currency bonds versus portfolio bond benchmark*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

The monetary easing measures of the ECB already led to price increases for euro-area bonds in advance. For instance, yields on German government bonds are near their all-time lows, as a consequence, fixed interest investments in the CEE region look very attractive in comparative terms. Considering the possibility of further rate cuts in this region, we expect that the **upside potential for CEE bonds** will continue to enjoy good support over the medium term. In Poland and Romania, there are good chances for more cuts in the key rate, although we believe that such a step has already been priced in for Romanian bonds, in light of the current yield levels on these instruments. By contrast, we still anticipate a mild **decline in yields on Polish bonds**.

The exchange rates of the leu and zloty versus the euro, however, will probably not change very much as a result of these measures. At 1.2%, yields on 10-year Czech bonds are currently at a very low level and no further cuts in the key rate are expected there. Accordingly, we overweight Romania and Poland by 1 pp each in the bond segment and finance this position with an underweight of 2 pp on the Czech Republic. This allows us to open up an attractive carry trade.

Financial analyst: Stefan Memmer

Expected bond market performance (%)

	3m		6m		9m		12m	
Countries	**EUR**	**LCY**	**EUR**	**LCY**	**EUR**	**LCY**	**EUR**	**LCY**
Czech Republic	0.8	0.9	-0.2	-0.4	-0.1	-1.0	1.3	0.0
Hungary	4.4	4.6	3.3	3.5	-0.3	1.6	-0.6	1.2
Poland	5.6	4.4	4.1	2.9	4.1	2.8	5.1	2.6
Romania	3.4	4.4	5.8	5.6	4.2	5.1	3.8	4.7
Russia	4.9	1.6	5.9	3.6	9.1	4.4	11.4	6.5
Turkey	5.7	4.6	8.5	6.2	12.8	6.6	18.4	10.8
Croatia	-2.6	-1.8	1.4	2.0	2.5	2.1	1.8	2.2

Not annualised; 10y treasury bond, LCY…local currency
Source: RBI/Raiffeisen RESEARCH

Focus on fundamental factors

- **Recovery for the banking sector following the Asset Quality Review**
- **Romania: growth continues**
- **Economic dynamics as a risk factor for Croatian shares**

Although the spiral of sanctions between the West and Russia which was triggered by the conflict in Eastern Ukraine has continued to spin, the stock markets did not pay too much attention to this in recent weeks. Consequently, macro-economic and fundamental factors should once again come more to forefront for CEE equities. In Romania, the leading stock index should enjoy support from the continuation of solid GDP growth and tax breaks. Romanian companies should remain attractive, thanks to the **low interest rate environment** and the possibility of further reductions in the key rate. **Polish stocks** are also likely to profit from the probability of more rate cuts by the central bank, moreover, their valuations are moderate with a PER of 13.5 which is based on the earnings for 2015. The financial sector is strongly weighted in the Czech stock index, thus positive results of the Asset Quality Review by the ECB combined with robust economic growth should pave the way for rising prices there. By contrast, Croatian companies appear expensive based on valuations. Furthermore, the economy is in recession and the government's austerity measures prompt us to underweight Croatia by three percentage points in the equities segment, which means that we are not invested in Croatia at all. Instead we overweight the Czech Republic, Romania and Poland by one percentage point each. As the outcome of the Ukraine conflict is further undissolved and Russian stocks historically have a poor risk-reward ratio in our portfolio, we opt to keep a neutral weight on Russia.

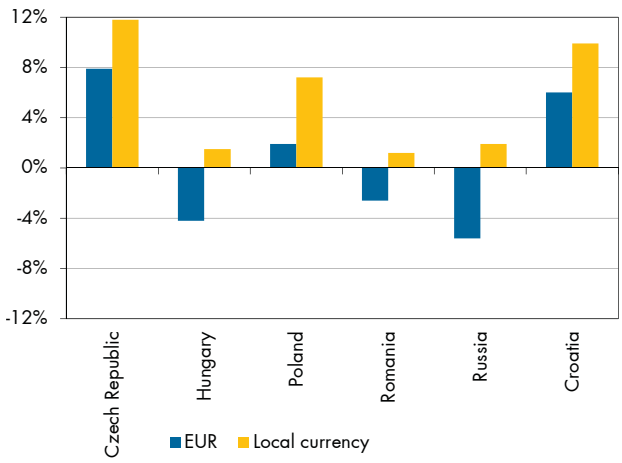
Financial analyst: Stefan Memmer

Portfolio weightings: stocks

	Portfolio	Benchmark	Difference
Czech Republic	16.0%	15.0%	1.0%
Hungary	12.0%	12.0%	0.0%
Poland	26.0%	25.0%	1.0%
Russia	40.0%	40.0%	0.0%
Croatia	0.0%	3.0%	-3.0%
Romania	6.0%	5.0%	1.0%

Source: RBI/Raiffeisen RESEARCH

Historical relative performance*



** to MSCI CEE, since 3 months*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Expected stock market performance (%)

	3m		6m		9m		12m	
Countries	**EUR**	**LCY**	**EUR**	**LCY**	**EUR**	**LCY**	**EUR**	**LCY**
Czech Republic	4.8	4.9	3.1	2.9	6.9	6.0	8.3	7.0
Hungary	4.2	4.4	1.5	1.7	3.1	4.9	5.2	7.1
Poland	5.6	4.4	3.5	2.4	6.8	5.6	8.9	6.4
Romania	4.3	5.3	2.7	2.5	4.9	5.8	5.7	6.7
Russia	6.0	2.5	3.4	1.1	8.8	3.9	11.8	6.6
Croatia	1.2	2.0	-1.4	-0.8	3.3	2.9	3.5	3.9

Not annualised, LCY...local currency
Source: RBI/Raiffeisen RESEARCH

Stabilisation in Ukraine – headwinds from weak euro area

- **Possible stabilisation in Ukraine (our base case) should limit downsides for the Russian economy**
- **Downsides are still on the rise for the Ukrainian economy and public debt sustainablility**
- **Up to now limited spillovers from cooling EU/Russian economic relations on CE/SEE economies**
- **Headwinds from euro area and softening domestic weakness in SEE as major downsides**

Real GDP forecast update (% yoy)

	2014e		2015f	
	Old	New	Old	New
CZ	2.6	2.6	2.4	2.4
HU	2.7	3.0	2.5	2.5
PL	3.3	3.1	3.3	3.2
SK	2.7	2.7	3.0	3.0
SI	1.0	1.5	1.0	1.0
CE	2.9	2.9	2.9	2.8
AL	2.0	2.0	3.0	3.0
BG	2.0	1.7	3.5	3.0
BA	0.0	0.0	3.5	3.5
HR	-0.8	-0.8	1.0	0.0
RO	3.5	2.0	3.5	2.7
RS	0.0	-0.5	2.0	1.0
SEE	2.0	1.2	2.9	2.2
BY	0.5	0.5	1.5	1.5
RU	**-0.3**	**-0.3**	**1.0**	**0.5**
UA	**-7.0**	**-7.0**	**1.5**	**-2.0**
DE	1.8	1.5	2.5	2.0
EA	1.2	0.8	2.0	1.6

green: projection raised; red: projection lowered
Source: Raiffeisen RESEARCH

Exposure to Russian economy

% of GDP	Gross trade exposure*	Gross FDI**	Cross-border banking claims	Total ****
RO	2.6	0.0	n.a.	2.6
HR	3.6	0.0	n.a.	3.6
SI	4.8	0.1	n.a.	4.9
PL	6.2	0.3	n.a.	6.5
CZ	6.4	0.2	n.a.	6.6
HU	8.8	0.6	n.a.	9.4
SK	10.9	0.0	n.a.	10.9
BG	14.5	0.6	n.a.	15.1
RS	9.5	5.8	n.a.	15.3
CE/SEE	6.4	0.2	n.a.	6.6
Baltics	21.7	1.0	n.a.	22.8
SE	1.9	1.3	2.5	5.7
NL	6.1	0.1	2.2	8.4
AT	2.4	2.9	4.1	9.4
FI	8.9	1.6	0.0	10.5
Other large EU***	1.5	0.3	1.4	3.3
DE	2.5	0.7	0.8	4.0

** Exports to Russia and Imports from Russia*
*** Outward FDI in Russia and inward FDI from Russia*
**** FR, UK, IT*
***** Toal gross exposure as sum of all previous categories*
Source: BIS, Eurostat, national sources, wiiw, RBI/Raiffeisen RESEARCH

The political and military situation in eastern Ukraine still remains tense. However, there are **indications** of **no further material escalation** (cease fire, minimum political agreement in Minsk). Hence, our current base scenario (75-80% probability) foresees further muddling through over the next 3-6 months, i.e. gradual stabilization in Ukraine, no escalation in tit-for-tat sanctions between EU/US and Russia. Such a scenario looks reasonable as Russia seems very close to achieving rational targets with regards to its position towards Ukraine and without too much short-term cost. That said Kiev is working on a deep federalization that may lead to a considerable autonomy of the Donbass region. This implies that Russia will keep a weighty indirect influence on Ukraine. Moreover, deep federalization in Ukraine enjoys strong backing by the EU (we are not so sure about the US). However, implementation is likely to remain challenging. There might be still some fighting despite a political compromise. Moreover, deep federalization of Ukraine could be difficult to sell domestically. For Russia the base scenario sketched previously does not imply much additional downside to our conservative projections for 2014 and 2015 (i.e. recession and/or stagnation in 2014/15). The major uncertainty is whether Western sanctions would be lifted or are still in place on a 12 months horizon. On financial markets a "frozen military conflict", gradual political progress in eastern Ukraine and no new sanctions would limit further sell-off potential for Russian assets; especially for fixed income assets (Russia's equity story seems to be more burdened). However, we would not project too much upside unless there are indications that Western sanctions, that formalized a de facto markets closure, will be finally lifted. We tend to think that market sentiment towards Russia will stay cautious in H2 2014, but may improve in 2015. Nevertheless, investors will likely keep Russian assets due to striking valuations. Compared to Russia, we see growing downsides in Ukraine with important markets implications, beyond the hefty UAH depreciation year-to-date. The long lasting conflict in eastern Ukraine has an increasingly negative impact on the Ukrainian economy in terms of direct and indirect costs. That said the probability of an external public debt restructuring in order to restore public debt sustainability is rising considerably although tricky details would have to be solved. A debt restructuring might be put on the (political) agenda when more IMF/IFI financing for Ukraine might be needed.

We think the **fallout** from our **Russia/Ukraine base scenario** on **CE/SEE economies remains modest**. This supposition is based on modest direct exposures of most CE/SEE economies to Russia, while energy supply cuts are unlikely in our base sceanrio. While exports to Russia showed strong dynamics after the 2008/09 financial crisis, recently export growth to Russia slowed down and plateaued already in 2013. Still, average annual import growth rates of 17% over the past 4 years look impressive and are explaining part of the appeal of the Russian market; at least up to now. On average, CE/SEE countries participated fully in this development. Some countries, like Poland, managed to perform even better. Together, CE/SEE countries still display a modest export volume of EUR 40 bn to Russia (average 2010-12). The share in total (merchandise)

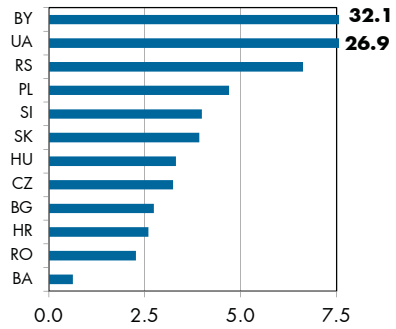
exports is also moderate at 3%-7%. Serbia (6.6%) and Poland (4.7%) have the maximum relative exposure. However, the Polish economy has a larger domestic market than smaller, more export-oriented economics. Hence for Poland exports to Russia amount to just 1.7% of GDP, while Serbia exports goods worth 2.5% of GDP to Russia and the other CE economies are above 2% of GDP. Nevertheless, neither value is particular high. Ukraine and Belarus are – not surprisingly – more exposed to any changes in trade relations with Russia. Ukraine has an export share to Russia of 27%, Belarus some 33%. However, one has to note that Ukrainian exports to Russia have been declining for the past two years and already dropped to a share of roughly 20%. In Belarus a similar decline is unlikely. Closer integration with Russia proceeds and Belarus is taking part in the Russian-led Customs Union and from 2015 on in the Eurasian Economic Union.

Russian import-restrictions on **EU agricultural goods** may lead to an **oversupply** of such products on CE/SEE markets. This effect favours falling prices that may get an additional boost from solid harvests in several CE/SEE countries this year. Such price effects should not be underestimated, where in the euro area and CE/SEE deflation rather than inflation concerns are of relevance. In most CE/SEE countries the share of food prices in the HICP is well above the EU/euro area average. Serbia, Romania, Bulgaria, Croatia and Poland do look particular vulnerable. Some counterbalancing upward pressure on price dynamics may come from the expected USD strength vs. the EUR over the next months, as this will add to upward pressure on energy prices. Another aspect of interdependence with Russia are FDI flows and stocks. However, here the footprint of CE/SEE countries is very limited – in stark contrast to Western Europe. A lot of Western EU economies have sizeable FDI and banking sector exposures, and hence assets, in Russia. CE/SEE countries have FDI holdings in Russia of some USD 2 bn, equivalent of 0.4% of Russian inward FDI stock. Looking at investments of Russian into CE/SEE the numbers are slightly higher, as cumulative Russian FDI stock in this countries amounts to USD 9 bn (2% of Russian outward FDI). For comparison, the EU-28 (excl. Cyprus) accounts for 40% of Russian inward FDI and 30% of outward FDI.

For most CE/SEE countries economic trends in the euro area are much more important than deterioration in direct economic links with Russia. So mostly due to a **weaker-than-expected euro area recovery**, we take a **more cautious view on the CE/SEE growth** outlook compared to three months ago. In late spring, we upped our GDP outlook for CE and SEE slightly (supported by solid Q1 GDP data). However, the performance in Q2 was worse than expected. For Poland our annual GDP call slightly decreased to 3.1% (2014) and 3.2% (2015). The biggest downward revision has been made in SEE, a disastrous Q2 for domestic investment demand in Romania forced us to significantly cut our growth estimate from 3.5% to 2% (2014) and also cut our 2015 estimate. Croatia and Serbia continue to struggle, while Croatia might not return into growth territory in 2015 – a seventh year without growth. With several key SEE countries facing less dynamism, the SEE growth estimate drops to 1.2% this year and 2.2% next year (from 2.0% and 2.9%). On a positive note, the recovery in Hungary is gaining pace and we raised our annual GDP forecast to 3% (2014). We think that that our positive view on improving domestic demand conditions in CE/SEE is still valid, however with rising downside risks. Our aggregate growth forecast for CE has not changed much and remains at around 3% for 2014 and 2015.

Financial analyst: Gunter Deuber, Andreas Schwabe, CFA

Share Russian exports (%)*



** average 2010-2012; share of merchandise exports to Russia*
Source: wiiw, RBI/Raiffeisen RESEARCH

Inward FDI stock (% of total, 2013)

from	to CE	to SEE	to Baltics	to UA
Russia	0.3	1.4	4.7	6.9
Cyprus	2.8	3.4	4.1	32.0

Source: wiiw, RBI/Raiffeisen RESEARCH

Comprehensive measure of gross exposure to Russia*

On average total direct and indirect exposure of CE/SEE countries in various important economic dimensions to Russia currently stands at "just" ~6% of GDP, with Croatia and Romania below the average and Bulgaria, Hungary and Slovakia above the regional average (the Baltics show total exposures of ~20% of GDP, see p.10). Some smaller Western European EU countries (like Austria or Netherlands) are characterized by higher values for total gross exposure to Russia than a lot of CE/SEE countries. Some larger Western European economies like Germany also show high values of overall economic exposure to Russia, at ~3-4% of GDP. This mostly comes from high FDI stocks and/or banking sector exposures to Russia, exposure categories that are not of relevance in CE/SEE. In case of some CE/SEE countries it should not be underestimated that non-negligible financial relationships with the offshoring location Cyprus, that is a prominent location for Russian FDI, are existing, while direct Russian FDIs in CE/SEE are lower than the ones from Cyprus.*

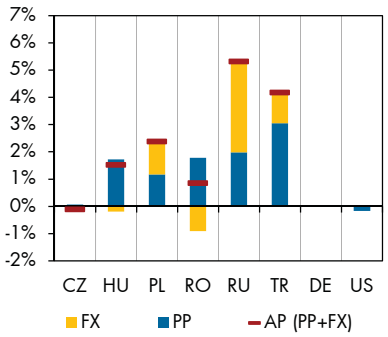
** Based on exports & imports, inward FDI in Russia, Russian FDI in a given country and cross-border banking claims; all indicators as % of GDP*

Financial analyst: Gunter Deuber

Mostly bullish view, but risks clearly tilted to the upside

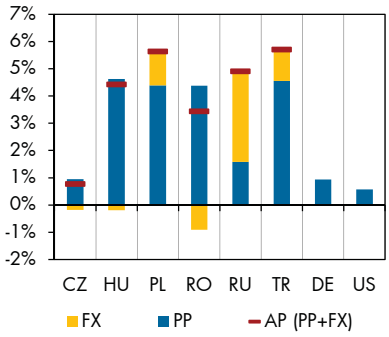
- **CZGBs and POLGBs were regional outperformers in Q3 and we continue to like the Polish trade the most**
- **Following the latest sell-off we also anticipate recovery rallies and favour shorter-dated ROMGBs, TURKGBs and OFZs**
- **... whilst country-specific risks in Hungary warn us to remain cautious there**
- **Once markets can better digest US MP, attractive valuations could lure investors back to the more fragile markets**

Expected perf. 2y LCY bond -> Dec-14



FX: Currency performance (chg LCY/EUR)
PP: Bond price performance (price chg + carry)
AP: Absolute performance (PP + FX)
DE, US: Only price performance (PP)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Expected perf. 10y LCY bond -> Dec-14



FX: Currency performance (chg LCY/EUR)
PP: Bond price performance (price chg + carry)
AP: Absolute performance (PP + FX)
DE, US: Only price performance (PP)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Market strategy (horizon: Dec-14)*

	LCY Bonds	
	2y	10y
CZ	H (H)	H (H)
HU	H (H)	H (H)
PL	B (H)	B (H)
RO	B (H)	B (H)
RU	B (S)	H (S)
TR	B (H)	H (H)

** based on expected absolute performance in LCY between 15-Sep and 31-Dec 14.*
Previous recomm. (as of June 2014) in brackets
Source: RBI/Raiffeisen RESEARCH

Since our previous strategy publication, the Czech and Polish local debt markets outperformed their regional peers. At the same time, Russia led in losses followed by Turkey, Hungary and Romania. Especially **longer tenors struggled to ward off pressure stemming from US rate hike fears** that led to a broad-based sell-off at the turn of July/August. Russia is a special case, of course, since RUB markets continued to face elevated pressure due to Ukraine and the related sanctions which are taking their toll on an already struggling economy. With the usual suspects hit the hardest, the **vulnerability of CEE local debt markets to changes in the global rate environment** was demonstrated pretty clearly once again. The risk-off trade is also reflected in the latest capital flows data with non-resident flows to local bond markets mostly in the red. Up until now, the surprise rate cut and the current dovish ECB stance did not encourage inflows to Emerging Europe.

We anticipate this trend to reverse in the short term. Market participants are betting on **more (quantitative) easing by the ECB**, which is supportive for the CEE trade. As a matter of course, the global (MP) backdrop also affects interest rate expectations in Emerging Europe. Hence, in contrast to our earlier view, we do not foresee the Polish central bank hiking rates in 2015. Indeed, the **resumption of the rate-cutting cycle became very likely** in the recent past, due to local factors as well such as disappointing economic hard data amidst disinflationary tendencies. As such, the NBP should deliver two consecutive one-quarter percentage point rate cuts in October and November which seem to be a done deal and even more cannot be excluded. **In Romania, we face a similar situation** with the resumption of rate cuts already underway. Even in Hungary we would not rule out that speculation about the reopening of the rate-cutting cycle could intensify.

On the other hand, the **uncertainty regarding the impact of US rates tightening** and, accordingly, a stronger USD vs. EUR, are factors which play in the opposite direction. The divergent transatlantic rate paths make it very hard to assess which effect will come out on top. In addition, **uncertainties on the geopolitical scene** add to the precarious mix of risks. However, we expect the front end of CE LCY yield curves to remain well anchored due to the continuation of record-low interest levels in the EA, but also in local markets. The **delay and more limited extent in the cyclical rise in Bunds** is the main driver of our generally bullish short-term view on CEE debt. With markets in Hungary, Romania and Turkey, but also Russia promising favourable performances until end-2014, idiosyncratic risks on the local (political) scene prompt us to only recommend holding HGBs. While shorter-dated bonds in Turkey, Romania and Russia could be speculative buy recommendations, longer tenors are destined to suffer the most from the approaching US rate tightening. The **Polish market is our strongest call**, though, due to the favourable combination of accommodative MP conditions and the favorable track record of zloty markets in withstanding broad-based EM selling pressure. After markets better digest tighter US MP conditions, i.e. at a 6-12m horizon, re-entering the other CE debt markets could be worth considering

.

Financial analysts: Stephan Imre

Foreign exchange view – Russian rouble oversold on Ukraine crisis

- **Significant USD appreciation against EUR to dominate USD/LCY**
- **Russian rouble expected to rebound after recent sell-off**
- **Polish zloty with positive medium-term outlook**
- **Hungarian forint and Serbian dinar seen negative on a one year horizon**

The third quarter proved to be tough, especially with regard to exchange rates in the CIS region. The Ukraine conflict and the sanction debates together with significant economic deterioration led to **strong pressure on the Russian rouble as well as the Ukrainian hryvnia**. Other CEE currencies witnessed a less severe overall depreciation trend with lower volatility, although the short-term effects of uncertainty were visible in a wide range of CEE exchange rates, especially in August.

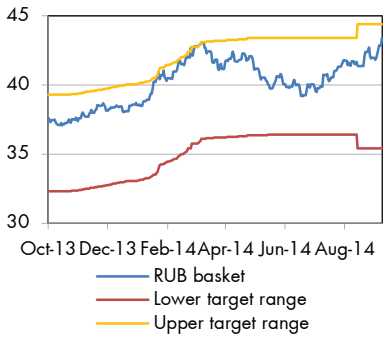
Our two **recommendations** for the third quarter worked, but the **Turkish lira** only contributed about 2% quarterly performance against EUR, which was a bit less than we had expected. The **sell recommendation for the Russian rouble** against USD on the other hand worked out very well. Despite our already aggressive call of 5% depreciation against USD, RUB shed almost 10% during the third quarter. One of the main surprises in the third quarter was the EUR/CZK depreciation in August, as the rate moved away from a phase of stability seen in the months before. Additionally, the Ukrainian hryvnia witnessed a stronger depreciation trend despite the IMF support which we thought would give more stability to the hryvnia in a low liquidity market.

We are cautious with regards to near-term and medium-term outlook for a lot of CE/SEE currencies as we **project the steepest EUR depreciation** over the next 12 months vs. the USD since H2 2008 (in the context of the global financial crisis). Such an environment of pronounced EUR weakness is usually **not supportive for CEE currencies**. For Q4, the only exception is here the Russian rouble which, according to our forecast, could show minor appreciation against USD in the fourth quarter from currently oversold levels. On the other hand, we project sideways movement for most CEE currencies versus EUR, given our assumption of a muddling through scenario in the Ukraine conflict and mixed economic developments. The **best performance for Q4** should be seen for the **Russian rouble against the euro**, simply given the fact that we have already seen extreme depreciation in the rouble and would expect at least some rebound as the Ukraine conflict should not escalate further and induce a sanction spiral. We therefore have a buy recommendation for the Russian rouble against EUR for Q4. PLN and TRY are expected to show some small gains against EUR, but here we would abstain from a buy recommendation for the fourth quarter.

At a **one-year time horizon**, we see the **best performance for PLN** against EUR, despite our rather neutral outlook for the fourth quarter. But this assumption also hinges on stabilisation of the Ukraine conflict with a pricing-out of risk and an overall pick-up in economic sentiment in the coming quarters. The Czech crown should only trade closer to the intervention level of 27.0 against EUR in the coming months, but until we see an end to the intervention level (possibly in Q1 2016) there will be no stronger appreciation potential for CZK. Taking a **one-year perspective**, we remain **bearish regarding the Hungarian forint and the Serbian dinar**. Comparing our forecasts with Bloomberg median forecasts, we particularly notice deviation in the Hungarian forint. Whereas we expect HUF depreciation against EUR, consensus forecasts indicate an appreciation trend for the coming quarters.

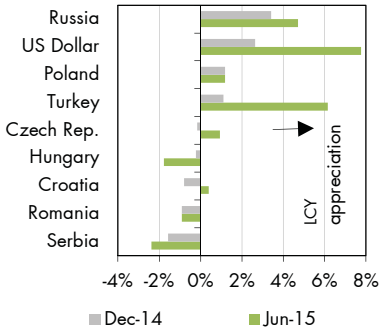
Financial analyst: Wolfgang Ernst, CEFA

Russian rouble under pressure



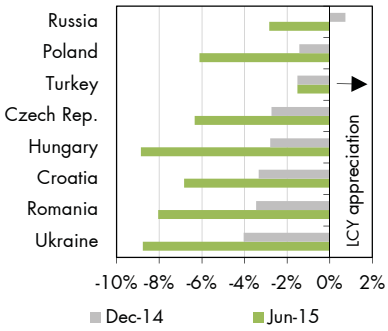
RUB basket: 5y high 44.0389, low 32.8939
Source: Bloomberg, Russian Central Bank, RBI/Raiffeisen RESEARCH

Projections LCY vs. EUR



Source: RBI/Raiffeisen RESEARCH

Projections LCY vs. USD

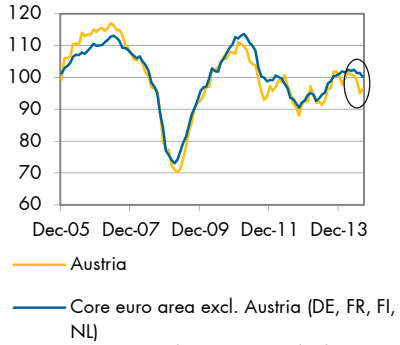


Source: RBI/Raiffeisen RESEARCH

Disappointing business cycle dynamics in the first half of 2014

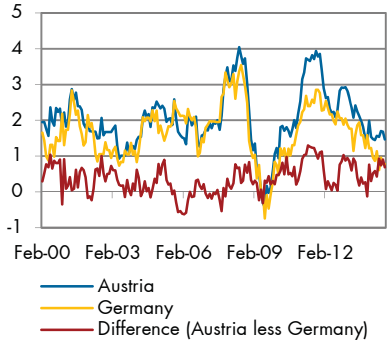
- **The modest economic recovery that started in H2 2013 did not continue in H1**
- **Business cycle dynamics only expected to accelerate in 2015**
- **Geopolitical tensions weigh on the already weak investment activity**
- **Above EU average inflation is cutting into nominal wage growth**

ESI*: Austria lagging behind



*Economic Sentiment Indicator, GDP weighted
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Inflation*: Comparatively high



*HICP, % yoy
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

The **acceleration of business cycle dynamics** that started in the second half of 2013 **did not continue** in the first quarter of 2014. From 0.4% qoq in Q4 2013, GDP growth decelerated to just 0.1% qoq in Q1 2014. In the second quarter, economic output expanded at a rate of 0.2% qoq (preliminary), but restrained corporate investment activity and sluggish household consumption did not make significant contributions to GDP growth once again. By contrast, public consumption was quite strong again. Thus, after the promising uptick in H2 2013, economic performance was disappointing in the first six months of this year.

There are also **only few signs pointing to an acceleration of business cycle dynamics in the quarters ahead**. For example, between April and July the EU Commission's economic sentiment indicator dropped each month and only managed a modest increase to 96.5 points in August again. Nevertheless, this indicator remains well below the long-term average of 100 points. Also compared to the other core euro area countries economic sentiment developed weak in Austria. Consequently, economic growth will likely be very subdued in the coming quarters as well. With the outlook for domestic demand remaining weak, real GDP growth rates will probably be similar to what was seen recently (Q2: +0.2% qoq) until the first quarter of 2015. After that, it appears likely that dynamics will accelerate, borne by private consumption and investments, but growth will probably still remain more modest compared to previous upturns. This projected path results in expected GDP growth rates of 0.9% in 2014, followed by 1.2% and 1.9% in 2015 and 2016 respectively.

Despite good financing conditions, **gross fixed investment** has been **weak** for quite some time (except for Q1 2014, which was due to vehicle purchases brought forward prior to the increase in the vehicle registration tax). In the quarters ahead, investment decisions will probably be negatively affected by the recent marginal decline in capacity utilisation, and in particular by the ongoing tensions in the Russia/Ukraine conflict and the related uncertainties. Provided

Key economic figures and forecasts

	2013	2014e	2015f	2016f
Real GDP (% yoy)	0.3	0.9	1.2	1.9
Private consumption (% yoy)	-0.2	0.4	0.9	1.9
Gross fixed capital formation (% yoy)	-0.8	0.1	1.4	4.5
Nominal exports (% yoy)	4.9	4.0	5.4	7.3
Nominal imports (% yoy)	2.6	4.0	5.4	8.5
Trade balance (goods and services, EUR bn)	14.7	15.1	16.1	14.9
Current account balance (EUR bn)	8.4	7.4	7.3	6.2
General budget balance (EUR bn)*	-4.7	-8.4	-4.6	-3.1
General budget balance (% of GDP)*	-1.5	-2.6	-1.4	-0.9
Unemployment rate (avg, %, EU definition)	4.9	4.9	4.8	4.5
Consumer prices (avg, % yoy)	2.1	1.5	1.7	1.9
Real wages (% yoy)	0.4	0.8	0.8	0.9
Unit labour costs (% yoy)	2.6	2.0	2.2	2.2

* state, provinces, municipalities and social security authorities
Source: Statistics Austria, Thomson Reuters, RBI/Raiffeisen RESEARCH

there is no substantial escalation of the trade restrictions between the EU and Russia. However, investment activity should pick up again in 2015. On the other hand, construction investment is expected to remain positive. Already in the previous quarters construction has been supporting overall gross fixed capital formation.

Private consumption also **disappointed** in recent quarters. No positive dynamics have developed in private consumption, despite a solid employment performance and modest increases in real wages. Consumer confidence is ranging at levels well below the long-term average, meaning that there is little hope for improving private consumption expenditure in the short run. Although developments in employment remain solid, the increase in unemployment (national definition) owing to the expansion of the labour force appears to be disturbing consumers. This is reflected in the fact that consumers' assessment of the labour market outlook for the next 12 months is more pessimistic in Austria than in most other euro area countries. Moreover, the assessment of future economic developments is also much more cautious than in other countries in the monetary union. Another factor is that inflation is high in an EU comparison, which is cutting into nominal wage increases. Despite all of this, private consumption is still expected to gain pace in the course of 2015, driven by more dynamic employment gains, improving consumer confidence and moderate real wage increases.

At 1.5% yoy in August, **Austria registered the highest rate of inflation (yoy) in the entire euro area** (and the highest in the EU together with the UK). Although the inflation figures for the euro area are distorted downwards by the negative rates (yoy) in some peripheral countries, compared to Germany, Austrian inflation is also ranging at the upper end of the inflation difference seen in recent years. The main factors behind this divergence are the components restaurants/hotels, communication, leisure as well as food and thus mostly services. For 2014 as a whole, inflation in Austria should amount to 1.5%, with inflationary dynamics only expected to increase modestly in 2015 (1.7%) and 2016 (1.9%).

Financial analyst: Matthias Reith

GDP: value added by sector

Change (% yoy, in real terms)	2013	2014e	2015f	2016f
Agriculture & forestry	-1.4	0.0	0.0	0.0
Prod. of goods/mining	1.3	1.4	2.1	3.2
Energy/water supply	8.7	0.5	1.0	1.8
Construction	0.3	1.5	1.7	1.9
Wholesale and retail trade	-1.4	0.0	1.0	2.0
Transportation	-0.6	0.5	1.0	1.5
Accom. & restaurant trade	-2.3	0.5	1.0	1.6
Information and communication	-2.0	-0.3	1.0	2.5
Credit and insurance	-0.1	0.2	1.1	1.3
Property & business services	0.7	1.2	1.6	2.1
Other economic services	0.3	0.5	2.0	3.3
Public sector	0.3	0.2	0.5	0.5
Healthcare, social services	1.6	1.6	1.5	1.5
Other services	1.5	1.1	1.4	2.0
Gross domestic product	0.3	0.9	1.2	1.9

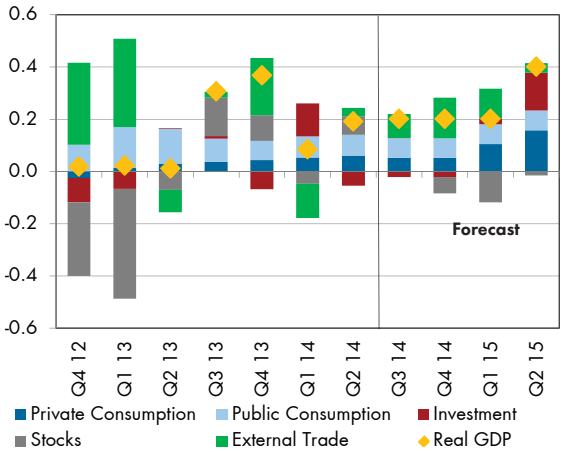
Source: Statistics Austria, RBI/Raiffeisen RESEARCH

GDP: expenditure composition

Change (% yoy, in real terms)	2013	2014e	2015f	2016f
Private consumption	-0.2	0.4	0.9	1.9
Public consumption	1.6	1.8	1.6	1.6
Gross fixed capital formation	-0.8	0.1	1.4	4.5
Equipment	-3.5	-1.4	1.2	7.5
Construction	1.2	1.4	1.6	1.9
Exports	2.7	2.4	3.7	5.3
Imports	0.5	2.5	3.6	6.5
Gross domestic product	0.3	0.9	1.2	1.9

Source: Statistics Austria, Thomson Reuters, RBI/Raiffeisen RESEARCH

Contributions* to real GDP growth (qoq)

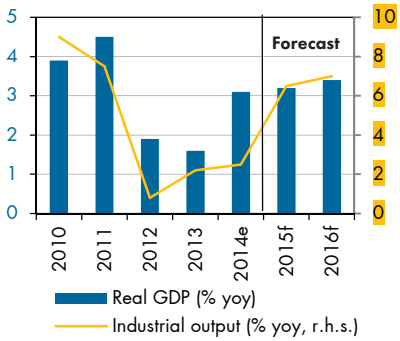


** in percentage points*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook hampered by external factors

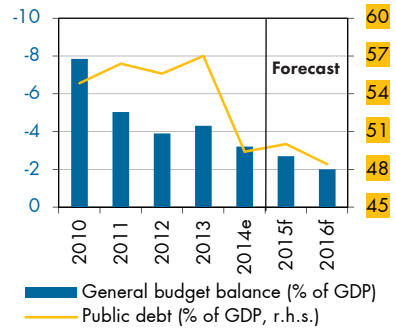
- **Domestic demand remains strong with a further surge in investment**
- **Signs of economic slowdown will most likely trigger interest rate cuts**
- **Following moderate losses for the zloty versus the euro, sideways movement is expected until end-2014**
- **Speculation about more loosening by the NBP, but ECB also paves way for a moderate year-end rally of POLGBs**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

In Q2 2014, the Polish economy reported surprisingly **robust growth of 3.3% yoy** slowing by just 0.1 pp compared to Q1. The biggest **positive surprise once again came from gross fixed capital formation**. While the surge in Q1 was strongly supported by one-off effects such as tax benefits and favourable weather conditions, the Q2 result seems to confirm a sustained rebound in investment activity. We expect this tendency to continue, although at a slightly slower pace. **Main drivers will be EU funds inflows and rising public investment** which will probably be boosted before the parliamentary elections in autumn 2015. Private consumption continued on a moderate upward trend, accelerating to 2.8% yoy from 2.6% in Q1. In our opinion, however, the outlook for H2 2014 deteriorated slightly as higher uncertainty negatively influenced consumer confidence. Some components of GDP growth also sent slightly mixed signals for the economic outlook. On the one hand, internal conditions appear optimistic as domestic demand increased by 5.1% yoy. On the other, the **jump in inventories which contributed as much as 1.7 pp to overall GDP growth may point to temporary problems with demand**. **We expect GDP growth to slow down to 2.9% in Q3 and 2.7% in Q4**, and then to return to an upward trend slightly above 3% in 2015. The biggest risk still stems from external factors such as the strength of the euro area recovery. The Russian embargo seems to be having less of an impact. We estimate its negative effect on GDP growth at about 0.2 pp over a one-year horizon. As inflation entered negative territory and will probably remain there until Q4 and the economic outlook has deteriorated, the Monetary Council announced "an adjustment of monetary policy" in Q4, which in our opinion will rely on two rate cuts of 25bp each. Consequently, **the key rate will be decreased to the level of 2.0%** and then it will probably be maintained unchanged at least over a one-year horizon.

Key economic figures and forecasts

	2010	2011	2012	2013	2014e	2015f	2016f
Nominal GDP (EUR bn)	354.7	370.4	381.6	389.9	408.2	433.0	477.0
Real GDP (% yoy)	3.9	4.5	1.9	1.6	3.1	3.2	3.4
Industrial output (% yoy)	9.0	7.5	0.8	2.2	2.5	6.5	7.0
Unemployment rate (avg, %)	12.1	12.4	12.8	13.6	12.5	11.5	11.2
Nominal industrial wages (% yoy)	3.3	5.0	3.4	2.9	3.3	5.0	7.2
Producer prices (avg, % yoy)	2.1	7.6	3.3	-1.3	-1.1	1.6	2.9
Consumer prices (avg, % yoy)	2.6	4.3	3.7	0.9	0.3	1.7	2.7
Consumer prices (eop, % yoy)	3.1	4.6	2.4	0.7	0.6	1.8	2.5
General budget balance (% of GDP)	-7.9	-5.0	-3.9	-4.3	-3.2	-2.7	-2.0
Public debt (% of GDP)	54.8	56.4	55.6	57.0	49.4	50.0	48.4
Current account balance (% of GDP)	-5.1	-4.9	-3.5	-1.4	-0.3	-1.1	-2.6
Official FX reserves (EUR bn)	70.0	75.7	82.6	77.1	76.0	75.0	75.0
Gross foreign debt (% of GDP)	66.9	67.5	72.7	71.0	69.3	69.3	66.2
EUR/PLN (avg)	3.99	4.12	4.18	4.20	4.18	4.13	3.97
USD/PLN (avg)	3.01	2.96	3.25	3.16	3.12	3.44	3.31

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

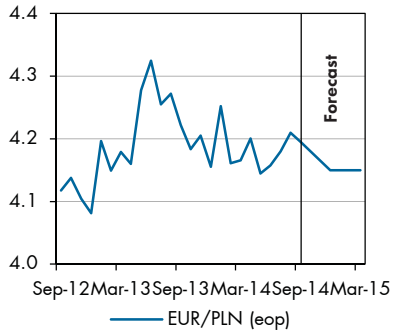
Financial market outlook

The Ukraine conflict and the related rise in risk aversion led to some depreciation pressure on the Polish zloty in. All in all, however, these movements remained in a moderate range and the level of EUR/PLN 4.20 proved to be a strong resistance. Currently, **along with the Ukraine conflict, interest rate speculation is the main driver behind the weakening zloty**. The disappointing purchasing managers' index readings and inflation figures in the red are fuelling this speculation about interest cuts. As these external and internal components are bound to stay during Q4 2014, we only see limited room for PLN appreciation against the euro. On the other hand, we also do not foresee any significant zloty depreciation against the euro as we project the Ukraine situation to remain frozen at the current stage without any significant deterioration, and at the same time we regard the overall economic situation in Poland as robust. This picture of **sideways movement in EUR/PLN at 4.15 should remain intact for the first quarter of 2015 as well,** when interest rate hikes by the US Fed may come into focus. Only thereafter we would see a return towards moderate PLN appreciation against EUR.

Looking at the LCY debt market performance since our previous strategy publication (cut-off date 23 June 2014), the moderate PLN losses versus EUR were (over) compensated by the **favourable price performance of POLGBs** (absolute performance includes carry). With the 10y yield nose-diving by around 70bp in the review period and thus outperforming other segments of the curve, the **10y spread to Bunds managed to narrow further**, despite the parallel rally on the core markets (10y Bund yield temporarily dipped well below the 1% mark). This favourable performance was only possible as **Poland weathered the latest sell-off wave exceptionally well**, in contrast to the more vulnerable CEE LCY bond markets such as Russia, Turkey and Hungary. The overall uncertainty regarding the impact of Fed tightening soured global sentiment considerably and triggered a sell-off across riskier assets. Speculation about more ECB easing in tandem with the increasing likelihood of the resumption of the rate-cutting cycle on the local scene, however, counterbalanced the adverse effects from US monetary policy expectations, i.e. its rate-hike expectations. As **we assume at least two consecutive 25bp rate cuts in Poland in October and November and would not exclude more easing by the ECB, we maintain our constructive view** on Polish debt.

Financial analysts: Michał Burek, Raiffeisen Polbank, Warsaw
Stephan Imre, RBI Vienna

Exchange rate development



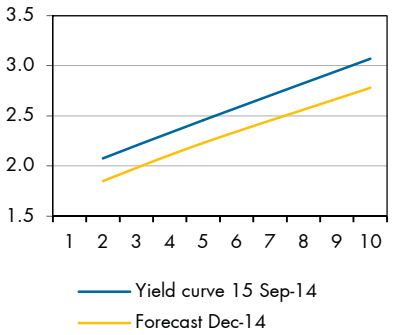
EUR/PLN: 5y high 4.57, 5y low 3.83
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
EUR/PLN	4.20	4.15	4.15	4.15	4.10
Cons.		*4.15*	*4.13*	*4.10*	*4.08*
USD/PLN	3.24	3.29	3.37	3.46	3.50
Cons		*3.20*	*3.21*	*3.24*	*3.25*

[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

PLN yield curve (%)*



** 2y – 10y LCY government bond yields*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts

	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
Key rate	2.50	2.00	2.00	2.00	2.00
Consensus		*2.25*	*2.25*	*2.25*	*2.38*
1 month[2]	2.33	2.07	2.10	2.10	2.10
3 month[2]	2.27	2.15	2.20	2.20	2.20
Consensus		*2.45*	*2.49*	*2.55*	*2.68*
6 month[2]	2.27	2.16	2.30	2.30	2.30

[1] 5:00 p.m. (CET) [2] Bid rate
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Yield forecasts

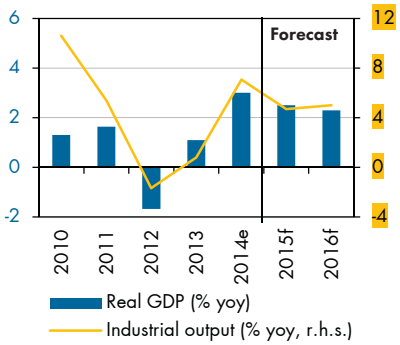
	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
2y T-bond[2]	2.07	1.9	2.1	2.2	2.3
Cons.		*2.4*	*2.8*	*3.0*	*3.1*
5y T-bond[2]	2.45	2.2	2.5	2.6	2.7
10y T-bond[2]	3.17	2.8	3.0	3.1	3.2
Cons.		*3.5*	*3.8*	*3.9*	*4.0*

[1] 5:00 p.m. (CET) [2] Ask yield
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Broad-based economic growth set to gradually slow

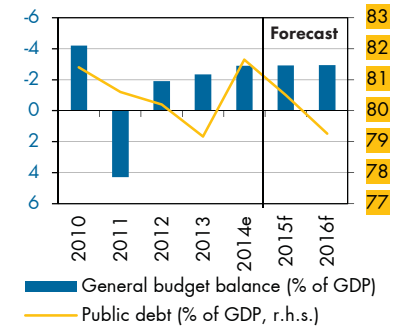
- **Economic growth is broad based, but set to gradually slow**
- **Incoming new capacities in the manufacturing industry (mostly car industry)**
- **Sideways movement as the most likely HUF scenario for the upcoming quarter, whilst forint vulnerability still pronounced**
- **Valuations of HGBs seem attractive again following the latest correction, but we would only buy into the market later**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

Economic activity continued to strengthen in Q2, as growth rates climbed to 3.9% yoy and 0.8% qoq. One especially noteworthy aspect was that, besides the massive upswing in public sector investments and the booming car industry, **household consumption is growing at a healthy rate** (2.4% yoy in Q2 2014). While early Q3 data was still fairly strong (retail sales above 2% yoy; industry output over 12% yoy), the August PMI was the weakest in the last 12 months. This derives partly from the base data and partly from the **uncertainties in the external environment** (weaker-than-anticipated growth in the EU, negative consequences of the Russia-Ukraine conflict). At the same time, there are several pro-growth factors: numerous new capacities are coming into operation in the manufacturing industry, and the local SME sector continues to benefit from the MNB's Lending for Growth Scheme. The upcoming actions vis-á-vis FX mortgages may eventually result in a tangible decline (approximately 20%-30%) in monthly instalments, which should translate into increased spending (at the expense of the banking sector). Consequently, we have **raised our 2014 GDP forecast from 2.7% to 3.0%** and leave our 2015 GDP forecast at 2.5%. We have no doubt that public budget deficit will be kept below 3% of GDP, while the public debt/GDP ratio is very sensitive to the exchange rate (42% of public debt is in FX). The months to come will be loaded with news about the banking industry (bad bank concept may be realised, compensation for FX mortgages and conversion of such into HUF). **Inflation surprised mostly on the downside** with the CPI rate sinking below zero in April and May, and remaining barely above zero since. The largest factor in the negative inflation is administered household energy price cuts, which were one-off items that are expected to fade out over the rest of the year. Therefore, we forecast a gradual return of inflation to the central bank's target of 3% by Q2 2015.

Key economic figures and forecasts

	2010	2011	2012	2013	2014e	2015f	2016f
Nominal GDP (EUR bn)	96.3	101.3	97.0	98.0	98.2	100.2	103.3
Real GDP (% yoy)	1.3	1.6	-1.7	1.1	3.0	2.5	2.3
Industrial output (% yoy)	10.6	5.4	-1.7	0.8	7.1	4.7	5.0
Unemployment rate (avg, %)	11.1	11.0	10.9	10.4	7.8	6.9	6.3
Nominal industrial wages (% yoy)	5.5	6.2	6.2	4.6	5.5	5.8	5.3
Producer prices (avg, % yoy)	4.5	4.3	4.3	0.7	-0.2	3.0	3.9
Consumer prices (avg, % yoy)	4.9	3.9	5.7	1.7	0.3	2.2	3.2
Consumer prices (eop, % yoy)	4.7	4.1	5.0	0.4	1.7	2.6	3.2
General budget balance (% of GDP)	-4.2	4.3	-1.9	-2.3	-2.9	-2.9	-2.9
Public debt (% of GDP)	81.4	80.6	80.2	79.2	81.6	80.5	79.3
Current account balance (% of GDP)	1.1	0.8	1.8	3.0	3.5	3.5	3.5
Official FX reserves (EUR bn)	33.7	37.8	33.9	33.0	33.0	25.0	26.0
Gross foreign debt (% of GDP)	143.5	130.3	129.9	123.5	119.2	102.8	96.8
EUR/HUF (avg)	275.4	279.4	289.2	296.8	310.1	318.8	326.9
USD/HUF (avg)	207.6	200.7	225.0	223.5	230.2	247.1	251.5

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

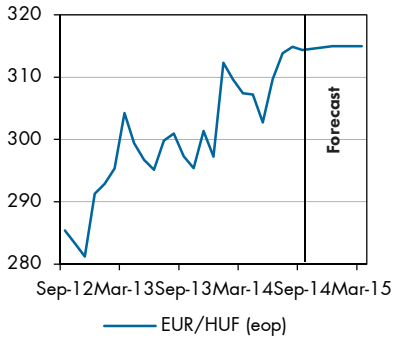
Financial market outlook

Our rather bearish outlook for the Hungarian forint in Q3 2014 proved to be correct. Apart from the overall rather weak CEE exchange rate performance due to the Ukraine conflict, the forint also suffered from continued interest rate cuts. Despite the fact that the rate-cutting cycle has probably reached its end (thereby taking some pressure off the forint) the **chances for additional cuts have increased in the recent past**. We remain cautious regarding the Hungarian forint in the fourth quarter, but given the recent depreciation pressure we view a **sideways movement around EUR/HUF 315 as the most likely scenario for Q4**. We would only expect to see renewed depreciation of the forint in the first half of 2015. The main source for such weakening should continue to be the difficult-to-judge politics that has had investors on the cautious side for the past quarters already. These include measures against the banking sector and possibly even steps to weaken the forint thereafter in order to support economic performance. We continue to see the **forint as one of the most vulnerable currencies in the CEE exchange rates**.

The more than 2% weakening of the HUF exchange rate versus EUR is the main explanation for the negative performance of HUF bonds since our previous strategy publication. **Thanks to the high carry HGBs offer in relation to their CE peers, the price losses were only moderate** in the period since the end of the second quarter. As we had expected, the short end of the HGB curve remained well anchored in the observed period, whilst longer tenors were hit hard by the latest sell-off at the turn of July/August. The latter was triggered by repricing of US interest rate expectations following the better-than-expected Q2 GDP numbers in the USA published on 30 July. Again, **Hungary belonged to the camp of CEE debt markets that suffered the most from the risk-off trade**. In the meantime, however, the local debt market has managed to recoup some of the losses it suffered at that time and valuations seem attractive again. We would expect the market to better digest US rate hike fears and geopolitical risks enabling a moderate year-end rally. Longer tenors should thereby drop more than short ones leading to a temporary flattening of the yield curve. However, increasing speculation about a possible resumption of the rate-cutting cycle on the local scene and, most importantly, further EA credit-boosting measures could add impetus in Q4. Nevertheless, **idiosyncratic risks – we refer mainly to political uncertainties that continue to keep Hungary's risk profile damaged – would only justify a hold** recommendation for HGBs.

Financial analysts: Zoltán Török, Raiffeisen Bank Zrt., Budapest
Stephan Imre, RBI Vienna

Exchange rate development



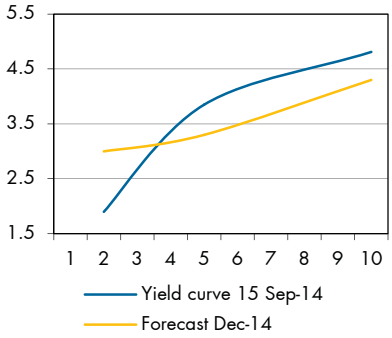
EUR/HUF: 5y high 320.46, 5y low 261.23
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
EUR/HUF	314.38	315.0	315.0	320.0	320.0
Cons.		*314.0*	*310.0*	*308.0*	*305.0*
USD/HUF	242.95	250.0	256.1	266.7	273.5
Cons.		*242.0*	*243.0*	*244.0*	*245.0*

[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

HUF yield curve (%)*



** 2y – 10y LCY government bond yields*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts

	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
Key rate	2.10	2.10	2.10	2.10	2.10
Consensus		*2.13*	*2.13*	*2.25*	*2.50*
1 month[2]	2.10	2.40	2.40	2.40	2.45
3 month[2]	2.11	2.65	2.70	2.70	2.75
Consensus		*2.29*	*2.38*	*2.61*	*2.71*
6 month[2]	2.16	2.75	2.85	2.85	2.90

[1] 5:00 p.m. (CET) [2] Bid rate
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Yield forecasts

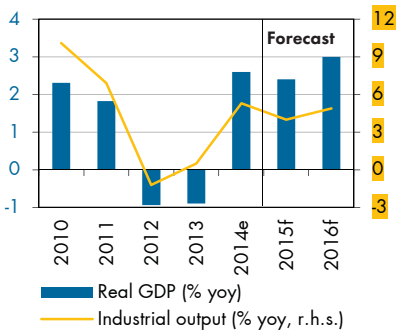
	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
3y T-bond[2]	3.20	3.0	3.2	3.4	3.7
Cons.		*n.v.*	*n.v.*	*n.v.*	*n.v.*
5y T-bond[2]	3.70	3.3	3.5	3.7	4.1
10y T-bond[2]	4.70	4.3	4.6	5.0	5.2
Cons.		*4.8*	*5.0*	*4.9*	*4.9*

[1] 5:00 p.m. (CET) [2] Ask yield
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Recovery continues, but risks accumulate

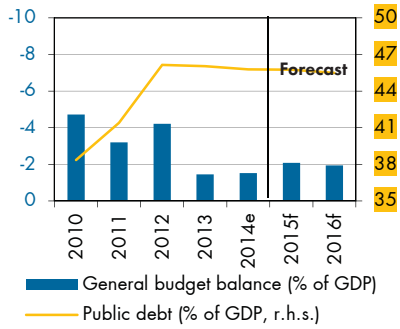
- **Economy stagnated in Q2, but underlying growth remains solid**
- **CPI only gradually rising, fiscal policy mildly expansive**
- **EUR/CZK to stay above 27.0 until Q1 2016, then gradual exit from FX intervention regime expected**
- **Key interest rate to remain unchanged at 0.05% until Q3 2016, hold recommendation for CZGBs intact**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

The Czech economy stagnated on a quarterly basis in Q2 after an expansion of 0.8% qoq in Q1. Such a result may look like a disappointment, but it was mostly caused by a decline in tax revenues. GDP was depressed in Q2 2014 to a similar extent as it was boosted in Q4 2013 (frontloading of tobacco sales). **Underlying growth remains solid.** While the share of Czech exports to Russia is relatively small, the current **bad mood on markets triggered by the sanctions may negatively affect the investment decisions** of firms and spending of households. The negative effect on corporate and consumer sentiment is visible in the development of soft indicators (PMI, consumer confidence). Despite deceleration in Q2, growth in Q1 was fast enough to back our **annual growth projection of 2.6% for the Czech economy** this year. The economy will continue its recovery next year. We stick to our forecast of 2.4% annual growth.

The Czech government plans a state budget deficit of CZK 100 bn next year. We think this will translate into a deficit of 2.1% of GDP (general budget, ESA 95), up from the current year's forecast of 1.5% of GDP. The government plans a **mild expansion of expenditures** (raising wages in the public sector by 3.5%, boosting infrastructure expenditures) and a **modest reduction of taxes** (introducing the third lower VAT rate on selected items).

Consumer inflation finally rebounded from a cyclical low of 0.0% yoy to 0.6% yoy in August. The FX intervention by CNB effectively prevented inflation from falling into negative territory. Food prices may decrease a bit as a result of the sanctions, which is one of the reasons why we postponed the expected exit from the intervention regime. **Inflation is expected to only gradually rise** towards the 2% inflation target.

Key economic figures and forecasts

	2010	2011	2012	2013	2014e	2015f	2016f
Nominal GDP (EUR bn)	150.0	155.6	153.0	149.4	145.9	153.0	165.6
Real GDP (% yoy)	2.3	1.8	-0.9	-0.9	2.6	2.4	3.0
Industrial output (% yoy)	10.1	6.9	-1.2	0.5	5.3	4.0	4.9
Unemployment rate (avg, %)	7.0	6.7	6.8	7.7	7.6	7.2	6.9
Nominal industrial wages (% yoy)	3.8	3.4	3.4	0.9	2.1	3.5	6.0
Producer prices (avg, % yoy)	1.2	5.6	2.1	0.8	-0.3	1.4	2.0
Consumer prices (avg, % yoy)	1.5	1.9	3.3	1.4	0.5	1.9	2.2
Consumer prices (eop, % yoy)	2.3	2.4	2.4	1.4	1.1	2.0	2.0
General budget balance (% of GDP)	-4.7	-3.2	-4.2	-1.5	-1.5	-2.1	-1.9
Public debt (% of GDP)	38.4	41.4	46.2	46.0	45.8	45.8	45.5
Current account balance (% of GDP)	-3.9	-2.7	-1.3	-1.4	0.4	0.3	0.0
Official FX reserves (EUR bn)	31.8	31.1	34.0	40.8	43.8	44.0	43.2
Gross foreign debt (% of GDP)	47.6	49.0	51.0	54.2	54.2	53.0	51.3
EUR/CZK (avg)	25.28	24.59	25.14	25.98	27.51	27.34	26.41
USD/CZK (avg)	19.06	17.66	19.55	19.56	20.53	22.78	22.01

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

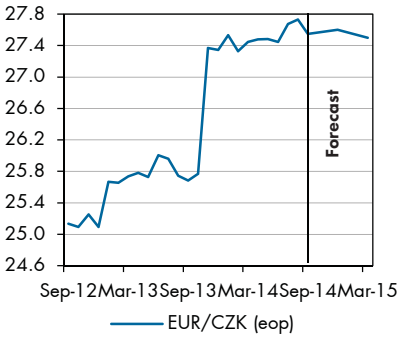
Financial market outlook

The FX intervention regime of the Czech National Bank (CNB) which keeps the EUR/CZK rate above the 27.0 level remains in place. Furthermore, the conflict in Ukraine and the related tit-for-tat sanctions between Russia and the EU/USA have weakened the Czech currency further, as the rate moved towards EUR/CZK 28.0. The future development of the conflict is obviously hard to predict. Assuming that for the next couple of months the risks will only diminish gradually, we expect that **until the end of 2014 the koruna will stay close to the current weaker levels around EUR/CZK 27.60** and only appreciate slowly in H1 2015. The risks are on both sides. Furthermore, as inflation was lower by 20bp in Q3 2014 and the leading indicators within the EU were weaker, **we shift our expectation that the CNB will abandon its intervention regime from Q4 2015 to Q1 2016**. Although in terms of macroeconomics such a delay does not have any strong meaning, the CNB will try to be on the "safe side" as long as possible. According to CNB the "exit" will be smooth. We tend to think that abandoning the FX floor will be tricky as there might be strong activity either speculative or hedging. Nevertheless, at this point we see the highest probability for an exit in February 2016.

The CNB has mentioned many times that the first step when there is a need to tighten monetary policy will be currency appreciation, i.e. exiting the intervention regime. Only after that it will start thinking about raising interest rates. As we now expect that the ECB will not start increasing interest rates until H2 2016, earlier rate hikes in the Czech Republic would appreciate the currency too much, too early. Therefore, we think that the **first repo-rate hike from the current level of 0.05% will come in Q3 2016**. CPI inflation will gradually increase towards 2% in H2 2015. Local currency bond yields should increase, but with the ECB policy and our expectation for the European benchmarks, the rise will be significantly slower than we had initially anticipated. Although fiscal policy will become slightly expansionary in 2015, the **financing position of the Czech government will probably remain very favourable** as the economy is growing faster than expected. Therefore, the supply side of the equation will hardly be a trigger for a rise in government bond yields. On the other hand, we believe that the Czech Republic stands a **good chance receiving a single-notch rating upgrade from Fitch and Moody's** while the outlook might change from stable to positive over a 6-month horizon. The government bond yield spread of the Czech 10y bond over the German benchmark will probably stay close to current levels around 10-30bp. For Q4 2014, we stick to our hold recommendation for CZGBs.

Financial analysts: Michal Brožka, Raiffeisenbank a.s., Prague
Stephan Imre, RBI Vienna

Exchange rate development



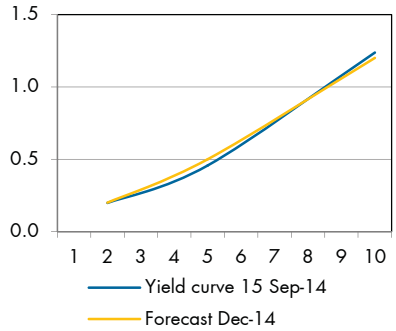
EUR/CZK: 5y high 27.94, 5y low 23.99
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
EUR/CZK	27.55	27.60	27.50	27.30	27.20
Cons.		*27.50*	*27.40*	*27.40*	*27.00*
USD/CZK	21.29	21.90	22.36	22.75	23.25
Cons.		*21.30*	*21.51*	*21.77*	*21.95*

[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

CZK yield curve (%)*



** 2y – 10y LCY government bond yields*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts

	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
Key rate	0.05	0.05	0.05	0.05	0.05
Consensus		*0.05*	*0.05*	*0.05*	*0.05*
1 month[2]	0.03	0.05	0.05	0.05	0.05
3 month[2]	0.04	0.10	0.10	0.10	0.20
Consensus		*0.34*	*0.34*	*0.37*	*0.38*
6 month[2]	0.06	0.20	0.30	0.30	0.30

[1] 5:00 p.m. (CET) [2] Bid rate
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Yield forecasts

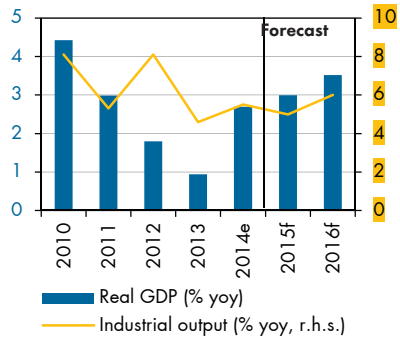
	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
2y T-bond[2]	0.16	0.2	0.3	0.4	0.6
Cons.		*0.2*	*0.2*	*0.3*	*0.3*
5y T-bond[2]	0.41	0.5	0.6	0.7	0.9
10y T-bond[2]	1.18	1.2	1.5	1.7	1.7
Cons.		*1.7*	*1.8*	*1.9*	*2.0*

[1] 5:00 p.m. (CET) [2] Ask yield
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Balanced growth with fiscal challenges

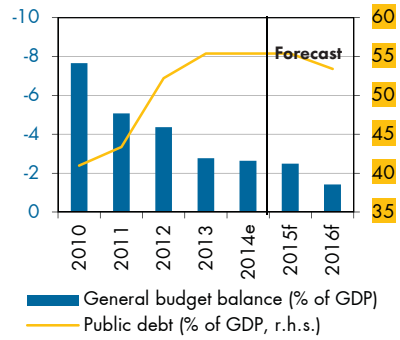
- **Domestic demand is the key driver of growth**
- **Labour market outperforms fundamentals**
- **Price development to remain very weak well into 2015**
- **Sluggish fiscal consolidation may require privatisation**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

After four consecutive years of decelerating GDP growth, Q1 2014 saw a clear turnaround. This trend reversal was primarily caused by a revival in domestic demand. **The structure of GDP growth is well balanced at present.** In Q2 2014, GDP expanded at a rate of 2.5% yoy, while household consumption grew by as much as 2.7% yoy and investment activity gained strong momentum, growing at 6.3% yoy. Export performance was in line with the good industrial production numbers (in Q2: 5.3% yoy). For the rest of 2014, **we expect quarterly GDP growth to remain at 0.6%, and thus the annual average will be 2.7% for 2014**. We see a small downside risk to this forecast, due to the situation in Ukraine (approximately 0.2-0.3 pp). Wage growth (+4.8% yoy in Q2 2014) and employment growth (+1.5% yoy) clearly outperformed economic fundamentals. In 2015, we expect growth rates in line with GDP growth. Inflation has currently been at the "zero" level for several months, and we only expect a very gradual increase towards 0.3% by the end of 2014. The **decrease in energy prices and stagnating food prices will be the most important factors behind benign price developments** in 2015 as well.

In 2013, Slovakia had a budget deficit of 2.8% of GDP, below the 3% EU guidance. **Government debt surpassed an important threshold of the national "Debt Brake" (55% of GDP)** and now stands at 55.4% of GDP. The Slovak government is therefore obliged by a constitutional law to present a budget without a nominal expenditure increase for the next year. In 2015, the **target deficit is 2.5% of GDP which is not very ambitious**, but numerous one-offs should be replaced. Currently, public debt is projected to peak at 55.4% of GDP in 2015, but government must sell off a minority stake in Telekom in order to prevent it from rising above 56% of GDP.

Financial analyst: Juraj Valachy, Tatra banka, a. s., Bratislava

Key economic figures and forecasts

	2010	2011	2012	2013	2014e	2015f	2016f
Nominal GDP (EUR bn)	65.9	69.0	71.1	72.1	73.9	76.6	80.6
Real GDP (% yoy)	4.4	3.0	1.8	0.9	2.7	3.0	3.5
Industrial output (% yoy)	8.1	5.3	8.1	4.6	5.5	5.0	6.0
Unemployment rate (avg, %)	14.4	13.4	13.9	14.2	13.3	12.3	11.7
Nominal industrial wages (% yoy)	5.4	3.6	4.0	3.6	4.2	3.2	4.0
Producer prices (avg, % yoy)	-2.8	2.6	3.9	-0.1	-3.5	1.5	2.0
Consumer prices (avg, % yoy)	1.0	3.9	3.6	1.4	0.0	1.0	2.0
Consumer prices (eop, % yoy)	1.3	4.4	3.2	0.4	0.3	1.3	3.0
General budget balance (% of GDP)	-7.7	-5.1	-4.4	-2.8	-2.6	-2.5	-1.4
Public debt (% of GDP)	41.0	43.4	52.2	55.4	55.4	55.4	53.4
Current account balance (% of GDP)	-3.7	-2.0	2.2	2.2	1.8	1.6	1.3
Gross foreign debt (% of GDP)	74.5	76.5	71.5	82.7	92.6	94.7	91.9

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Slovenia: Finally out of the woods?

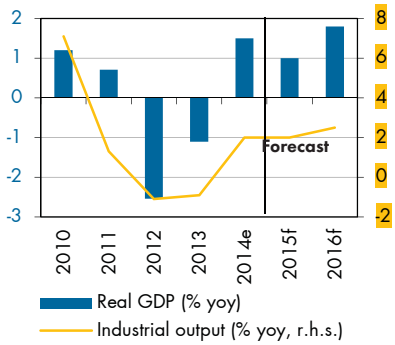
- **Export-led growth strengthens in H1, while domestic demand still weak**
- **Inflation undershoots expectations and will come close to zero in 2014**
- **Signs of upcoming recovery in domestic demand, but growth in 2015 still moderate**
- **Certain stabilisation in banking sector underway**

The signs for an economic recovery in Slovenia are somewhat mixed. In seasonally adjusted qoq terms, economic growth in H1 2014 was relatively underwhelming, at -0.3% in Q1 and 0.0% in Q2. This indicates that **the growth momentum in H1 was not overly strong**. At the same time, annual figures recovered to 2.1% in Q1 and 2.9% in Q2, influenced by the recession in the previous year. However, one has to carefully distinguish between the external growth performance, which has been quite impressive, and domestic demand which is still very shallow. Translated into growth numbers, this means that exports have shown annual growth of 4-5% in recent quarters, while private consumption has barely moved into positive territory, reaching a marginally positive level (0.2% yoy in Q2). With overall euro area growth less strong than earlier anticipated, **there is a risk that the Slovenian economy will lose some steam in the export sector**, while domestic demand is still not strong enough to offset this. Thus, we remain rather sceptical that H2 will see much improvement compared to H1, but **even slow growth will propel the rate above our previous forecast** of 1.0%. Consequently, we increase the projection by 0.5 pp to 1.5% for 2014. We would expect a similar slow growth pace of around 1.0% next year – possibly slightly more tilted to domestic demand, as for example wage growth and retail sales have picked up and may translate into higher domestic demand growth going forward.

Inflation dynamics have been on a downward trend since early 2013, with the yearly rate (eop) most recently hitting the zero line. Average one-year inflation has fallen to below 1% as well. Assuming weak price pressures at least to the end of the year, the **average inflation rate will fall to close to zero**. Provided there is some normalisation (i.e. higher monthly inflation next year), the rate will climb towards 1% again during the coming year.

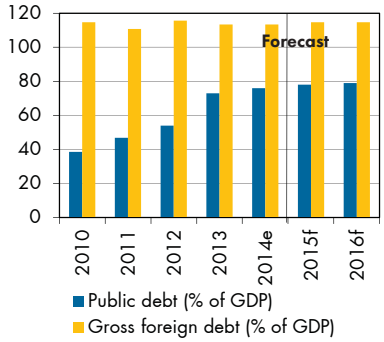
Financial analysts: Andreas Schwabe, CFA

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Public and external debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Key economic figures and forecasts

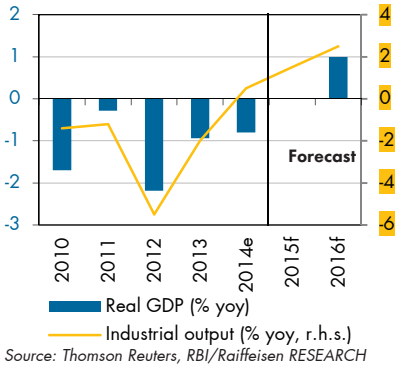
	2010	2011	2012	2013	2014e	2015f	2016f
Nominal GDP (EUR bn)	35.5	36.2	35.3	35.3	36.1	37.0	38.4
Real GDP (% yoy)	1.2	0.7	-2.5	-1.1	1.5	1.0	1.8
Industrial output (% yoy)	7.1	1.3	-1.1	-0.9	2.0	2.0	n.a.
Unemployment rate (avg, %)	7.3	8.2	8.9	10.5	10.5	10.0	9.5
Nominal industrial wages (% yoy)	3.6	2.7	3.7	n.a.	n.a.	n.a.	n.a.
Producer prices (avg, % yoy)	2.1	4.4	0.8	0.2	n.a.	n.a.	n.a.
Consumer prices (avg, % yoy)	1.8	1.8	2.6	1.8	0.1	0.9	1.3
Consumer prices (eop, % yoy)	1.9	2.0	2.7	1.5	0.3	1.8	1.5
General budget balance (% of GDP)	-5.9	-6.3	-3.8	-14.7	-5.0	-4.0	-4.0
Public debt (% of GDP)	38.6	46.9	54.0	73.0	76.0	78.0	79.0
Current account balance (% of GDP)	-0.1	0.4	3.3	6.5	6.4	5.0	4.2
Official FX reserves (EUR bn)	0.8	0.8	0.7	0.7	0.7	0.7	n.a.
Gross foreign debt (% of GDP)	114.7	110.8	115.6	113.3	113.5	114.8	114.6

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Scratching the bottom

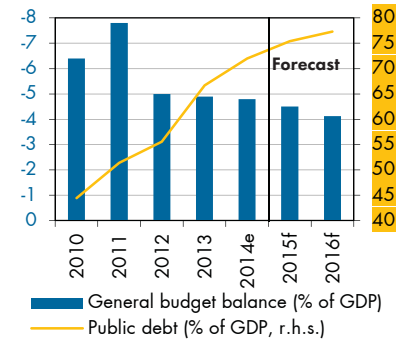
- **No signs of improvement in 2015**
- **Continuing reduction of real state consumption**
- **Depreciation pressures on EUR/HRK and low volatility to continue**
- **Government might tap the capital market in the coming months**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

The trend of declining economic activity, which started five and a half years ago, continued in 2014. Moreover, signs of stabilisation in economic activity at the beginning of the year vanished in the second quarter, when GDP declined on a quarterly and annual basis. A **hint of encouragement comes only from export and industrial output growth** which have been influenced by a slight recovery in foreign demand. Exports of goods is the only component of GDP whose value exceeded the pre-crisis level, confirming the importance of boosting competitiveness and the export orientation of this small, open economy. However, the positive contribution of exports is being weakened by the strong import component of exports, and its importance is still too small to reverse the downward trend. **Domestic demand is subdued, as well as investment,** which is stuck in a deep recession. Unfortunately, we do not see any signs of improvement in 2015, as household consumption is constrained by the extremely weak labour market and investment activity is struggling with crises in the construction sector and the unfavourable business environment, which is additionally under pressure from frequent changes in the tax system and a lack of serious reforms.

The **need to adjust public finances** to curb the unsustainable growth in public debt implies a continuing reduction of real state consumption which – in the medium term – should also have a statistically negative impact on GDP. However, if adjustment does not stop at one-off cuts and is followed by structural changes to large public systems and state administration, and comes with increased efficiency and the rule of law, it would make it possible to create the preconditions for sustainable growth and development. Otherwise, **Croatia's potential rate will stay at modest levels (1%–2%)**, which is insufficient to create new jobs. This will exacerbate the already large problem with the loss of the most productive segment of the population, that is, the core resource in the development of any econ-

Key economic figures and forecasts

	2010	2011	2012	2013	2014e	2015f	2016f
Nominal GDP (EUR bn)	45.0	44.7	44.0	43.6	42.9	43.4	44.7
Real GDP (% yoy)	-1.7	-0.3	-2.2	-0.9	-0.8	0.0	1.0
Industrial output (% yoy)	-1.4	-1.2	-5.5	-2.0	0.5	1.5	2.5
Unemployment rate (avg, %)	11.8	13.5	15.8	17.2	17.4	17.2	17.0
Nominal industrial wages (% yoy)	0.0	1.3	1.9	-1.0	0.0	2.0	2.1
Producer prices (avg, % yoy)	4.3	6.4	7.0	0.5	-2.4	2.0	2.5
Consumer prices (avg, % yoy)	1.1	2.3	3.4	2.2	0.0	1.5	1.9
Consumer prices (eop, % yoy)	1.8	2.1	4.7	0.3	0.5	1.2	2.5
General budget balance (% of GDP)	-6.4	-7.8	-5.0	-4.9	-4.8	-4.5	-4.1
Public debt (% of GDP)	44.4	51.4	55.6	66.7	72.0	75.4	77.3
Current account balance (% of GDP)	-1.1	-0.9	-0.1	0.9	1.2	0.9	-0.2
Official FX reserves (EUR bn)	10.7	11.2	11.2	12.9	12.5	12.6	12.7
Gross foreign debt (% of GDP)	103.3	102.6	102.1	104.8	106.8	106.5	104.0
EUR/HRK (avg)	7.29	7.43	7.52	7.58	7.63	7.65	7.66
USD/HRK (avg)	5.49	5.34	5.85	5.71	5.69	6.38	6.38

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

omy, i.e. human capital. This will create additional pressure on the state budget and diminish Croatia's chances of being a welfare state.

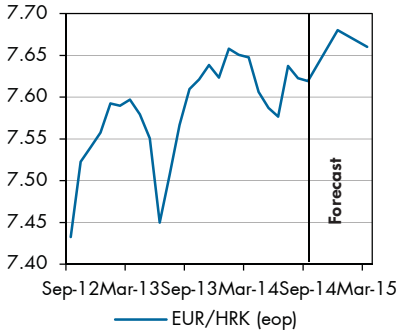
Financial market outlook

Surprisingly, this summer season did not see the usual appreciation pressures on HRK. On the contrary, EUR/HRK held firmly above 7.60 due to the closing of short forward positions (futures agreements), corporate demand for euros, bank provisioning and dividend pay-outs. Nevertheless, there was no need for central bank FX interventions as **volatility remained at the lowest level ever**. Apart from the seasonal upward pressure, which is common for the last quarter of the year, EUR/HRK is obviously affected by six years of prolonged recession. The lack of foreign currency inflows (no investments, no new borrowings, very low merchandise exports) and, at the same time, persistent demand for euros (deleveraging) are **slowly but steadily pushing the FX rate towards higher levels**. As we do not expect any significant changes in 2015, **EUR/HRK** will continue to move in the same direction. Therefore, **slight depreciation pressures and low volatility will** mark 2015 as well, and the central bank will remain consistent in maintaining the EUR/HRK rate stability. Furthermore, expansionary monetary policy will support the low interest rate environment on the local money market, mainly enabling the central government to access cheap short-term borrowing. As we do not see any improvement in demand for bank loans, Treasury bills will represent a fair investment opportunity. Therefore, the 1-year HRK yield is expected to hover around 2% at a 12-month horizon. Declines in T-bill yields have rendered local pure HRK bonds more attractive, while developments in the EM countries, as usual, had a substantial impact on Croatian Eurobond movements.

2015 will be relatively demanding in terms of debt repayment, as more than EUR 1.8 bn of sovereign bonds fall due. The first one is already due in January (Eurobond in the amount of 750 mn), so inevitably the government will tap the capital market in the coming months. As Croatia continues to suffer the consequences of a lack of fiscal transparency, the details are mostly unknown and very hard to predict. Nevertheless, **ample liquidity on the financial markets**, both European and local, **and risk on sentiment will offer relatively favourable and**, compared to fundamentals, **cheap borrowing**. Therefore, the government will certainly raise more funds in order to finance its needs in H1 2015. Still, the new budget deficit implies that the government will have an active year on the financial markets. The existing loans granted to the government by commercial banks and short-term debt resulting from issued T-bills will probably be renewed using the same instruments.

Financial analyst: Zrinka Živković Matijević, Raiffeisenbank Austria d.d., Zagreb

Exchange rate development



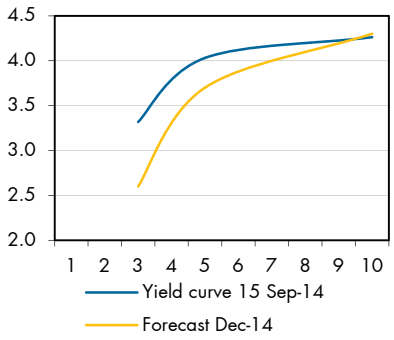
EUR/HRK: 5y high 7.67, 5y low 7.18
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
EUR/HRK	7.62	7.68	7.66	7.59	7.65
Cons.		*7.66*	*7.67*	*7.66*	*7.67*
USD/HRK	5.89	6.10	6.23	6.32	6.54
Cons.		*5.84*	*5.89*	*5.96*	*6.00*

[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

HRK yield curve (%)*



** 2y – 10y LCY government bond yields*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts

	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
1 month[2]	0.57	0.85	0.80	0.82	0.83
3 month[2]	0.73	1.12	0.90	0.95	1.00
Consensus		*0.55*	*0.58*	*0.55*	*0.65*
6 month[2]	0.95	1.40	1.40	1.40	1.46
12 month[2]	1.40	1.90	1.90	1.90	1.95

[1] 5:00 p.m. (CET) [2] Bid rate
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Yield forecasts

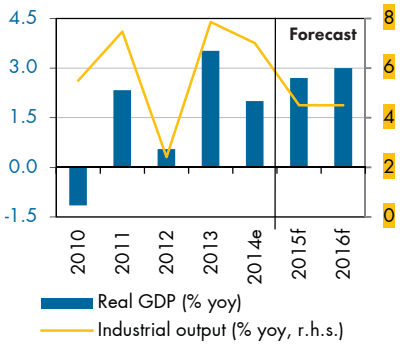
	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
2y T-bond[2]	2.05	2.6	2.6	2.6	2.7
Cons.		*n.v.*	*n.v.*	*n.v.*	*n.v.*
5y T-bond[2]	3.50	3.7	3.7	3.8	3.9
10y T-bond[2]	3.57	4.3	4.0	4.1	4.2
Cons.		*n.v.*	*n.v.*	*n.v.*	*n.v.*

[1] 5:00 p.m. (CET) [2] Ask yield
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Q2 turned things upside down

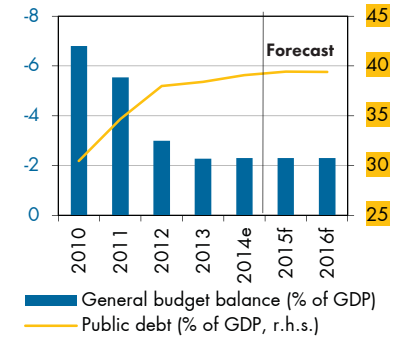
- **Unexpected large GDP fall in Q2 dampens our view on the economy**
- **Presidential elections will most likely not alter the governmental majority**
- **Room for the NBR to further reduce rates due to lower inflation and lower foreign rates – supportive for local debt**
- **Developments on local financial markets still mainly shaped by non-residents' actions**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

The **unexpectedly large drop in real GDP in Q2 (-1.0% qoq)** was driven by a contraction in activity in the major sectors (construction, services and even industry) and a fall in domestic demand (gross fixed capital formation, consumption). In addition, prospects for H2 2014 appear weaker than before, given the challenging external environment. All of this prompted us to **substantially revise our GDP forecast for 2014, to 2.0%** from the previous estimate of 3.5%. Following the acceleration in Q2 2013 and Q1 2014, private consumption recently showed signs of weakness. **Growth in gross fixed capital formation was by far the largest negative surprise** in H1 2014, as it plunged by 11.2% from H1 2013. While not all details are available yet, we think this decline was fuelled by a drop in both public and private investments. As we saw economic growth gaining strength at the turn of this year, we expected a revival in private investment but this has not materialised. The government planned a large increase in public investments in 2014, but a plunge was recorded in Jan-July both in investments funded from the national budget and investments co-financed from EU funds. Public investments should increase in H2, but the full-year targets will likely be missed by a considerable margin. Although more pessimistic, our current **scenario implies that economic activity is on an upward trend both in Q3 and Q4**, on the back of improving domestic demand.

Presidential elections will take place on 2 November (first round) and 16 November (second round). The main left-centrist ruling party PSD and its core allies back Prime Minister Victor Ponta for the presidential race. The two main right-centrist opposition parties (PDL and PNL) are allied and will back Klaus Iohannis in presidential elections. At the moment, **PM Ponta appears to have the best chances to win** the elections. Once the result of elections are known, negotiations with the IMF and the EC on the budget plan for 2015 and on structural reforms will be on the table and they might not be easy ones.

Key economic figures and forecasts

	2010	2011	2012	2013	2014e	2015f	2016f
Nominal GDP (EUR bn)	124.4	131.5	131.6	142.3	148.3	156.6	168.4
Real GDP (% yoy)	-1.1	2.3	0.6	3.5	2.0	2.7	3.0
Industrial output (% yoy)	5.5	7.5	2.4	7.9	7.0	4.5	4.5
Unemployment rate (avg, %)	7.3	7.4	7.0	7.3	7.2	7.1	6.9
Nominal industrial wages (% yoy)	8.3	6.7	4.6	4.6	6.0	5.5	5.5
Producer prices (avg, % yoy)	4.4	7.1	5.4	2.1	1.0	1.2	2.7
Consumer prices (avg, % yoy)	6.1	5.8	3.3	4.0	1.2	2.2	2.8
Consumer prices (eop, % yoy)	8.0	3.1	5.0	1.6	1.8	2.8	2.8
General budget balance (% of GDP)	-6.8	-5.5	-3.0	-2.3	-2.3	-2.3	-2.3
Public debt (% of GDP)	30.5	34.7	38.0	38.4	39.1	39.4	39.4
Current account balance (% of GDP)	-4.4	-4.5	-4.4	-1.1	-1.7	-2.2	-2.7
Official FX reserves (EUR bn)	32.4	33.2	31.2	32.5	31.5	32.5	33.5
Gross foreign debt (% of GDP)	74.3	75.1	75.7	67.5	62.7	62.6	62.3
EUR/RON (avg)	4.21	4.24	4.46	4.42	4.44	4.44	4.40
USD/RON (avg)	3.17	3.05	3.47	3.33	3.31	3.70	3.67

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

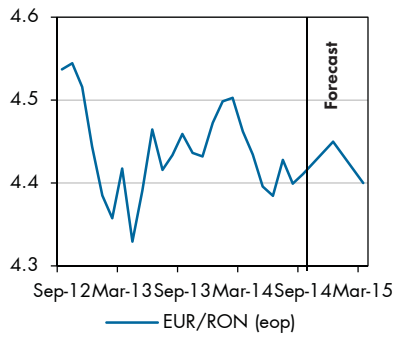
Financial market outlook

Inflation dynamics over the past few months continued to come in below our estimates and the market's expectations, thanks to low underlying inflationary pressures and low imported inflation. As there are signs that the favourable domestic and external environment for inflation may continue in the period ahead, we have had to revise our end-2014 target for the annual inflation rate again (1.8% yoy). Currently, we see chances that the **annual inflation rate will remain below 2.0% in H1 2015**. However, uncertainty related to the inflation outlook remains elevated given the high sensitivity of the inflation rate to supply side shocks. Changes in volatile food prices of fruits and vegetables remain hard to predict as well as those for administered prices (i.e. the authorities intend to freeze the liberalisation process of household tariffs for natural gas) and taxes (there are no hints about the level of exchange rate to be used for payments of excises in 2015). In our view, the **better-than-expected inflation outlook and the recent monetary easing measures announced by the ECB have created room for the central bank (NBR) to extend the rate-cutting cycle** initiated in August. Accordingly, we expect the NBR to reduce the policy rate by 25bp at each of the next two monetary policy meetings (on 30 Sep and on 4 Nov) to 2.75%.

However, the effective stance of monetary policy is fully defined by also taking into account the liquidity conditions in the money market. Throughout this year, money market interest rates have traded below the level of the key rate as a **liquidity surplus persisted in the money market and the sentiment of foreigners towards RON markets was positive** most of the time. While the surplus receded in August-September, there are signs of a new increase in liquidity towards the end of the year due to a spike in public spending (existing target allows for a large budget deficit). In this context, interest rate levels would be ultimately determined by the sentiment of foreign investors towards RON assets as this would shape the management of liquidity control by the NBR. Our baseline scenario assumes that sentiment will remain favourable in the coming quarters and money market rates should therefore remain below the key rate level of 2.75%. We expect **ROMGB yields to consolidate in the next few quarters close to their lows reached this summer** (10y yield around 4.0%) before starting to increase in line with core and regional peer market moves. Our bullish short-term view should be enabled especially by low domestic inflation and more ECB easing. **Volatility episodes are, however, likely given that dynamics for RON T-securities are mainly shaped by non-residents**' actions. Bond market developments will probably continue to determine the dynamics of the leu, but we expect the NBR to continue smoothing large fluctuations here.

Financial analysts: Nicolae Covrig, Gabriel Bobeica, Raiffeisen BANK S.A., Bucharest
Stephan Imre, RBI Vienna

Exchange rate development



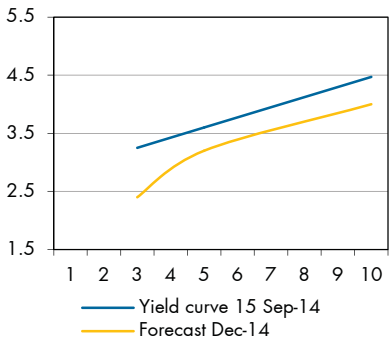
EUR/RON: 5y high 4.64, 5y low 4.06
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
EUR/RON	4.41	4.45	4.40	4.45	4.45
Cons.		*4.42*	*4.39*	*4.39*	*4.33*
USD/RON	3.41	3.53	3.58	3.71	3.80
Cons.		*3.43*	*3.47*	*3.50*	*3.50*

[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

RON yield curve (%)*



** 2y – 10y LCY government bond yields*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts

	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
Key rate	3.25	2.75	2.75	2.75	2.75
Consensus		*3.25*	*3.25*	*3.13*	*3.38*
1 month[2]	2.50	1.20	1.20	1.70	2.15
3 month[2]	2.36	1.60	1.60	1.85	2.20
Consensus		*2.67*	*2.93*	*3.03*	*3.32*
6 month[2]	2.19	1.55	1.55	1.70	2.00
12 month[2]	2.16	1.75	1.75	1.85	2.10

[1] 5:00 p.m. (CET) [2] Bid rate
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Yield forecasts

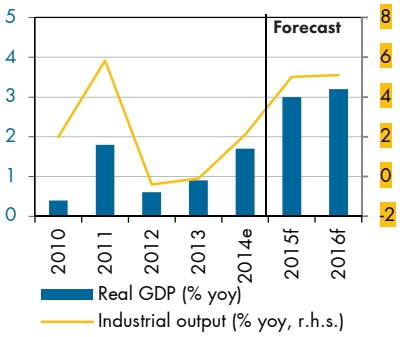
	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
2y T-bond[2]	2.68	**2.4**	**2.4**	**2.7**	**2.9**
Cons.		*n.v.*	*n.v.*	*n.v.*	*n.v.*
5y T-bond[2]	3.39	3.2	3.2	3.4	3.6
10y T-bond[2]	4.39	4.0	4.0	4.2	4.4
Cons.		*n.v.*	*n.v.*	*n.v.*	*n.v.*

[1] 5:00 p.m. (CET) [2] Ask yield
Source: Bloomberg, RBI/Raiffeisen RESEARCH

GDP growth amidst political flux

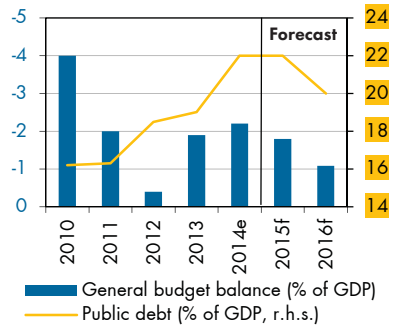
- **Domestic demand as the strongest GDP driver again**
- **Lending keeps growing moderately**
- **Precarious budgetary situation until the end of 2014**
- **Composition of the next government highly unclear**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

In Q2 2014 economic growth accelerated to 2.1% yoy from 1.4% yoy in Q1. Cumulatively, GDP increased by 1.8% yoy in H1, on the back of strong domestic demand, which was mainly driven by household consumption (+1.9% yoy) in H1, recovering from the depressed development in 2013. **Growing exports (+1.9 yoy) and gross fixed capital formation (+3.9% yoy)** also supported the positive dynamics. Additionally, panic and runs on the fourth and third biggest banks in the country pushed consumption upwards. Household consumption is expected to grow further in H2 2014. The government's policy of increased spending has boosted gross fixed capital formation, along with improving trends in lending. The latter is forecast to continue growing as well. As the external economic environment (in particular the EU) is projected to weaken, the development of exports should remain positive, but post lower rates than in 2013. The ongoing deflationary pressure is expected to decline, reflecting the current ECB policy and electricity prices, which are to be raised in October. Budget execution turned out to be worse than planned: the fiscal deficit in H1 came in at -2.8% of GDP, making it unrealistic to reach -1.8% target stipulated for 2014. This deterioration was due to bloated social expenditures and poor revenue-boosting measures. A higher state budget deficit at 2.2% of GDP is anticipated for 2014.

Early elections are coming in October. The **ongoing political uncertainty might remain:** the party GERB seems to have the highest chances of winning the most votes, but probably will not secure a majority in the parliament. Boiko Borisov, leader of the GERB party, already mentioned that he would not join a coalition if he fails to win an outright majority, with the consequence that Borisov would form a minority government or the Socialists would again have to put their head on the line. Another year of political instability could hurt the economic progress and the growth of 3% in 2015 might be questionable. External developments with possible power supply problems would contribute to the downside risks.

Financial analyst: Emil S. Kalchev, Raiffeisenbank (Bulgaria) JSC, Sofia

Key economic figures and forecasts

	2010	2011	2012	2013	2014e	2015f	2016f
Nominal GDP (EUR bn)	36.1	38.5	39.9	39.9	42.1	44.5	47.2
Real GDP (% yoy)	0.4	1.8	0.6	0.9	1.7	3.0	3.2
Industrial output (% yoy)	2.0	5.8	-0.4	-0.1	2.1	5.0	5.1
Unemployment rate (avg, %)	10.2	11.3	12.3	12.9	11.9	11.7	10.7
Nominal industrial wages (% yoy)	8.6	10.1	11.5	0.9	4.4	6.3	4.8
Producer prices (avg, % yoy)	8.7	9.4	4.2	-1.4	-1.9	2.8	2.9
Consumer prices (avg, % yoy)	2.4	4.2	3.0	0.9	-0.7	2.7	3.2
Consumer prices (eop, % yoy)	4.5	2.8	4.2	-1.6	0.1	3.4	3.0
General budget balance (% of GDP)	-4.0	-2.0	-0.4	-1.9	-2.2	-1.8	-1.1
Public debt (% of GDP)	16.2	16.3	18.5	19.0	22.0	22.0	20.0
Current account balance (% of GDP)	-1.5	0.1	-0.8	1.9	1.7	-0.5	-0.8
Official FX reserves (EUR bn)	13.0	13.3	15.6	14.4	15.6	17.9	20.2
Gross foreign debt (% of GDP)	102.7	94.3	94.3	93.5	92.1	82.4	76.4
EUR/BGN (avg)	1.96	1.96	1.96	1.96	1.96	1.96	1.96
USD/BGN (avg)	1.47	1.41	1.52	1.47	1.46	1.63	1.63

Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

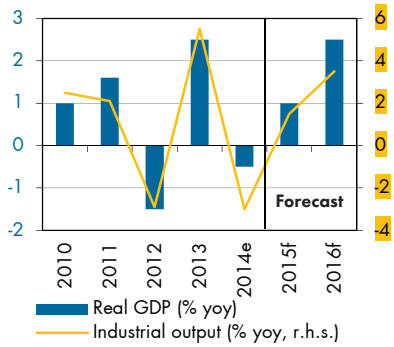
Geopolitical risks and reform delays

- **Strong EUR/RSD depreciation after a tranquil period**
- **Weak economic sentiment amidst delays in structural reforms**
- **Serbia at the crossroads, balancing between the EU and Russia**
- **Non-resident risk appetite weakened, but yields still stable ahead of new budgets**

The new cabinet is muddling through the rather challenging situation, attempting to support the weak economy and at the same time embark on the painful fiscal reform agenda, while new risks are emerging from the country's repeated rejection to impose sanctions against Russia. The aforementioned risks together with the mid-May floods have led to frail export growth, whereas industry is moving into negative territory. Interestingly enough, FDI is flowing into the country without interruption, and in our new estimate inflows will peak at EUR 1.1 bn in 2014, fuelled by the attractive subsidy scheme. Gloomy economic sentiment, the ambiguous public sector reform agenda, geopolitical risks and the expected normalisation in US monetary policy will weigh on the **EUR/RSD weakening path in Q4 2014**, after a very tranquil period in H1 2014. Furthermore, the obvious departure from the aggressive FX interventions by the National Bank of Serbia in an attempt to support the weak budget revenues and exports growth will additionally bolster local currency depreciation. Despite the fact that the economy will move into the recession (2014: -0.5% yoy), we assume that rising inflation due to base effect and hikes in state prices and elevated fiscal risks will both weigh on the **NBS decision to keep its key rate at 8.5%** in Q4 2014 and even H1 2015. The previous investor optimism about the new cabinet's reform agenda in May faded somewhat after the Finance Minister's resignation, who advocated deep public wages and pensions cuts. Although the cabinet partially confirmed its commitment to the reforms by adopting the laws on labour, pension insurance, bankruptcy and privatisation and by offering 502 public companies for sale, **the pace and the depth of public sector reforms might be questionable** as the cabinet seems to be afraid that larger spending cuts would further dampen the already weak economic sentiment. The planned **IMF talks in October** might result in a precautionary deal, assuming that the government moves ahead with dramatic expenditure cuts.

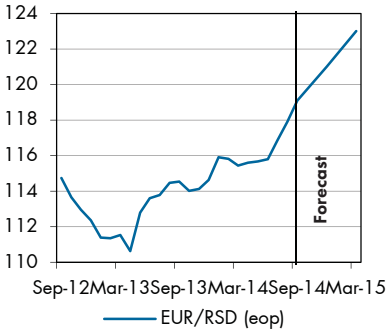
Financial analyst: Ljiljana Grubic, Raiffeisenbank a.d., Belgrade

Real GDP (% yoy)



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Exchange rate development



EUR/RSD: 5y high 119.1, 5y low 93.01
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Key economic figures and forecasts

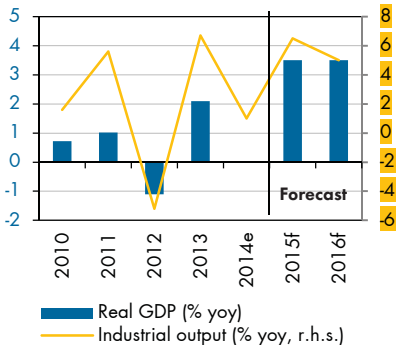
	2010	2011	2012	2013	2014e	2015f	2016f
Nominal GDP (EUR bn)	28.0	31.5	29.6	32.0	32.4	32.8	34.7
Real GDP (% yoy)	1.0	1.6	-1.5	2.5	-0.5	1.0	2.5
Industrial output (% yoy)	2.5	2.1	-2.9	5.5	-3.0	1.5	3.5
Unemployment rate (avg, %)	19.2	23.0	23.9	22.1	22.0	23.0	22.0
Nominal industrial wages (% yoy)	10.0	5.0	1.5	1.5	4.0	5.0	4.0
Producer prices (avg, % yoy)	12.7	14.2	8.5	7.0	6.0	6.0	6.0
Consumer prices (avg, % yoy)	6.3	11.3	7.8	7.8	5.5	5.5	5.0
Consumer prices (eop, % yoy)	10.3	7.0	12.2	2.2	5.0	5.0	5.0
General budget balance (% of GDP)	-4.7	-4.9	-6.4	-4.8	-8.0	-7.0	-5.5
Public debt (% of GDP)	43.5	47.0	59.9	63.0	69.8	74.7	76.9
Current account balance (% of GDP)	-6.7	-9.1	-12.3	-6.5	-5.6	-6.7	-7.5
Official FX reserves (EUR bn)	10.0	12.1	10.9	11.2	11.9	12.3	11.0
Gross foreign debt (% of GDP)	84.9	76.7	86.9	80.8	80.3	84.8	81.8
EUR/RSD (avg)	103.0	102.0	113.0	113.1	117.2	122.0	123.8
USD/RSD (avg)	77.6	73.3	87.9	85.1	87.4	101.7	103.1

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Downward pressure still weighs on the B&H economy

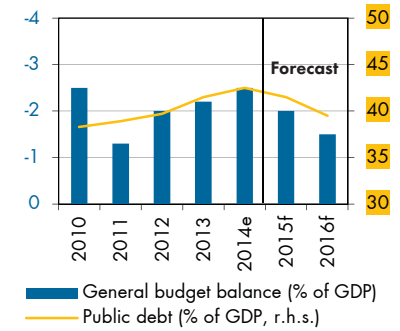
- **Slow progress in reconstruction process after the huge floods in May 2014**
- **After a slump in Q2, key economic indicators returned to a path of expansion**
- **Economy additionally pressured by the upcoming general elections**
- **General elections will be held on 12 October 2014**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

After a slump in Q2 2014 due to worst natural disaster in modern B&H history, the **real economy started to recover in Q3** with most of the key indicators in expansion territory. Specifically, industrial production and exports of goods, as the major drivers of the small B&H economy, registered solid increases in first month of Q3, rising by 4.0% yoy and 5.9% yoy, respectively. However, these modest positive signs in external-oriented economic categories are **far from a sustainable recovery** which could result in an upward revision for this year. As a reminder, due to the strong impact of the natural disaster in Q2 2014, we cut our full-year real GDP growth rate forecast to economic stagnation (0.0% yoy) and pointed out that the start and speed of mobilising funds and implementing the reconstruction process will mainly shape our forecast for the rest of the year and 2015. Although we expected that the reconstruction process will gradually start in Q3 2014 and reach its peak in Q4 2014, so far **reconstruction developments have been slow**, especially in the agriculture sector which accounts for around 7% of GDP. Hence, for the time being, we expect that exports of goods and services and industrial production will both report timid increases of 1.0% yoy this year. Household and government consumption should benefit from the expected reconstruction period with low positive growth rates of 0.5% yoy and 0.8% yoy, respectively. On the other hand, **gross fixed capital formation will most likely return to negative territory** (-1.0% yoy), due to the stop of investments for at least two quarters after the natural disaster, while the negative impacts on GDP will also come from the rising imports and the trade deficit. The economic forecasts for 2015 and 2016 have remained unchanged, taking into account the reconstruction period and planned infrastructure projects in the country (Corridor Vc and electro-cycle: TP Tuzla in FB&H and TP Stanari in RS). However, the mid-term outlook could also be pressured on the downside if the speed of reconstruction work is slow.

Financial analyst: Srebrenko Fatušić, Raiffeisen BANK d.d., Sarajevo

Key economic figures and forecasts

	2010	2011	2012	2013	2014e	2015f	2016f
Nominal GDP (EUR bn)	12.7	13.2	13.2	13.5	13.6	14.4	15.4
Real GDP (% yoy)	0.7	1.0	-1.1	2.1	0.0	3.5	3.5
Industrial output (% yoy)	1.6	5.6	-5.2	6.7	1.0	6.5	5.0
Unemployment rate (avg, %)	27.2	27.6	28.0	27.5	27.5	26.0	25.5
Nominal industrial wages (% yoy)	2.4	6.8	2.2	-0.5	0.0	4.0	4.0
Producer prices (avg, % yoy)	0.9	3.7	1.9	-1.8	0.0	2.4	2.6
Consumer prices (avg, % yoy)	2.1	3.7	2.1	-0.1	-0.3	2.5	2.5
Consumer prices (eop, % yoy)	3.1	3.1	1.8	-1.2	0.3	2.0	2.5
General budget balance (% of GDP)	-2.5	-1.3	-2.0	-2.2	-2.5	-2.0	-1.5
Public debt (% of GDP)	38.3	38.9	39.7	41.5	42.5	41.5	39.5
Current account balance (% of GDP)	-6.1	-9.7	-9.3	-5.5	-8.1	-11.1	-10.4
Official FX reserves (EUR bn)	3.3	3.3	3.3	3.6	3.8	4.1	4.1
Gross foreign debt (% of GDP)	57.3	66.8	63.1	62.4	63.5	62.5	56.7
EUR/BAM (avg)	1.96	1.96	1.96	1.96	1.96	1.96	1.96
USD/BAM (avg)	1.47	1.41	1.52	1.47	1.46	1.63	1.63

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

On the right track

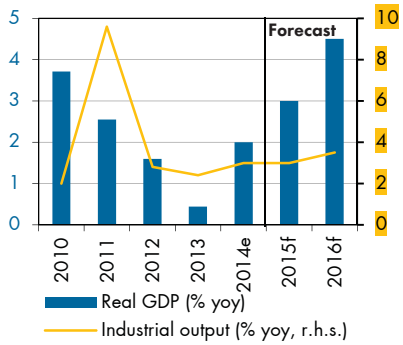
- **Economy to grow at a moderate level of 3% in 2015**
- **Budget deficit narrowed, due to improved tax collection performance and under-execution of capital investments**
- **Albania to enter the international market in late 2015 as the 5y EUR 300 mn Eurobond matures**
- **Municipal elections to be held in June 2015 may raise the political heat**

After **modest annual growth of 1.65% in Q1 2014**, the economy is expected to accelerate at around 2% in the 2014. In 2015, growth is estimated to be at 3% still conditioned by the high public debt, low capital investments by the central government and moderate domestic demand. However, over the medium term the economy will develop just below its potential of level range of 4%-6% sustained by the implementation of structural reforms and the improving situation of its main trade partners. The key driving sectors in the economy should continue to be energy, manufacturing, agriculture and services. Monetary policy will remain accommodative in 2015 as no upward inflationary pressures are expected. Even though the loose monetary policy is only reflected slowly in interest rates on loans, **lending activity started to show positive growth in Q2 2014** (0.8% qoq). This gradual growth is expected to continue during 2015. NPLs reached 24.1% by the end of June 2014, conditioned so far by the restrained lending growth.

The Albanian parliament has approved some important laws that should consolidate public finances and improve the business climate. One **big challenge** for public finances **remains the reform in the public power supply**. Most likely, a hike in electricity prices will be considered starting from 2015. So far the national electrical power supply company has been constantly subsidised from the government. By the end of 2015 Albania is expected to tap in the international market again as the EUR 300 mn Albanian 5y Eurobond is maturing. S&P improved the outlook for Albania from negative to stable in early April 2014. Albania faces another political challenge next year. **By mid-2015, local elections are going to be held** with the new territory administrative division. The Democratic Party did not participate in the territorial reform process, and therefore it is probable that political tensions will heat up before the elections. Judiciary system reform is expected to start by the end of 2014 and is one of the main requirements of the EU in order for Albania to advance at the negotiation stage with the EU in the integration process.

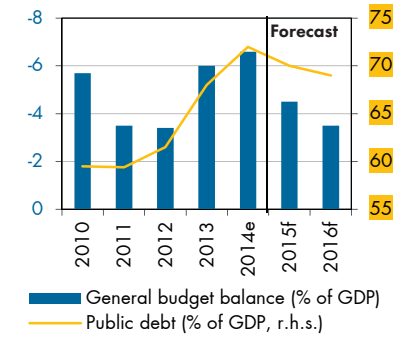
Financial analyst: Joan Canaj, Raiffeisen Bank Sh.a., Tirana

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Key economic figures and forecasts

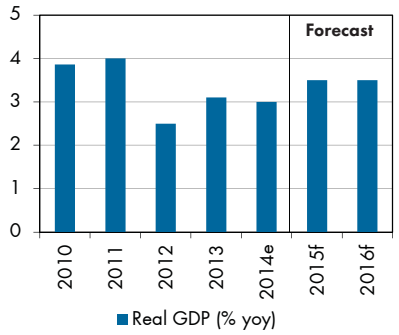
	2010	2011	2012	2013	2014e	2015f	2016f
Nominal GDP (EUR bn)	8.9	9.4	9.7	9.8	10.2	10.5	11.7
Real GDP (% yoy)	3.7	2.6	1.6	0.4	2.0	3.0	4.5
Industrial output (% yoy)	2.0	9.6	2.8	2.4	3.0	3.0	3.5
Unemployment rate (avg, %)	13.5	14.0	13.3	17.0	17.5	17.0	15.0
Nominal industrial wages (% yoy)	8.0	8.0	8.0	8.0	8.0	8.0	3.0
Producer prices (avg, % yoy)	0.2	2.6	1.1	-0.4	-1.0	5.0	4.0
Consumer prices (avg, % yoy)	4.0	3.5	2.0	1.9	1.8	2.5	2.8
Consumer prices (eop, % yoy)	3.5	1.7	2.4	1.9	1.8	2.4	3.0
General budget balance (% of GDP)	-5.7	-3.5	-3.4	-6.0	-6.6	-4.5	-3.5
Public debt (% of GDP)	59.5	59.4	61.5	68.0	72.0	70.0	69.0
Current account balance (% of GDP)	-10.8	-11.8	-9.3	-10.4	-10.3	-11.0	-10.1
Official FX reserves (EUR bn)	1.9	1.9	1.9	1.9	1.9	1.9	2.0
Gross foreign debt (% of GDP)	24.7	24.5	25.8	28.2	28.9	30.8	31.1
EUR/ALL (avg)	137.8	140.4	139.0	140.3	140.2	140.2	139.9
USD/ALL (avg)	103.9	100.8	108.2	105.6	104.6	116.8	116.6

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Kicking the can down the road

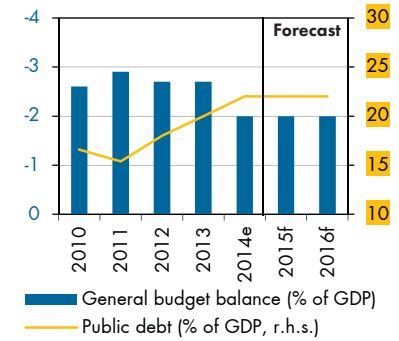
- **Stable economic growth**
- **Sharp decline in inflation**
- **Positive developments in the banking sector, growth in loans and deposits**
- **New government has still not been formed since the national elections in June 2014**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Consumption is growing, influenced by the rise in remittances from developed countries and the increase in public sector salaries and wages, which also had an impact on government expenditure. Public investment and FDI are falling, while the private sector continues to grow as it is being financed by the banking system. For the whole year 2014, GDP growth of 3% yoy is projected, the same level as estimated for 2013. This economic development is expected to be borne by increased consumption, while **investments are expected to decline slightly**. Kosovo is not separated from the European economy, which can also be seen in declining exports. At the same time, the trade balance is deteriorating substantially, due to an increase of imports of goods. However, the increase in remittances and services exports contributes to mitigating the current account deficit.

Inflation is decreasing and reached 0.4% in June 2014 (in the same period of the previous year it was 2.4%). This was driven by falling import prices, which mostly materialise in prices of food and oil.

The banking sector saw growth in loans of 3.5% yoy in Q2 2014, which is significantly higher than the growth of 2.4% in Q1 2014, while deposits grew by 10% yoy. Non-performing loans dropped from 8.6% in March 2014 to 8.2% in June 2014 (7.8% in June 2013). The **banking sector continues to have satisfactory position in terms of the level of capitalisation and liquidity**.

Since the national elections in June 2014, **a government has not been yet formed** as the political parties have not agreed to form any coalitions. The first parliamentary meeting was held on 17 July, when the government failed to be formed. Since then the Democratic Party of Kosovo (PDK), the largest political party, headed by Hashim Thaci, is struggling to reach an agreement on a new government. This political situation is expected to impact the economic development of the country. It should also be mentioned that for the time being 109 of the 193 United Nations member states have officially recognised the state of Kosovo. Still five EU member states have not accepted the Republic of Kosovo.

Financial analyst: Arta Kastrati, Raiffeisen Bank Kosovo J.S.C., Pristina

Key economic figures and forecasts

	2010	2011	2012	2013	2014e	2015f	2016f
Nominal GDP (EUR bn)	4.1	4.6	4.7	4.9	5.1	5.4	5.7
Real GDP (% yoy)	3.9	4.0	2.5	3.1	3.0	3.5	3.5
Unemployment rate (avg, %)	45.1	41.4	44.8	30.5	30.9	31.0	31.0
Producer prices (avg, % yoy)	4.7	5.7	1.7	2.5	2.5	2.5	2.5
Consumer prices (avg, % yoy)	3.5	7.3	2.5	1.8	0.4	1.0	2.0
Consumer prices (eop, % yoy)	6.6	3.6	3.7	0.5	0.5	1.5	2.5
General budget balance (% of GDP)	-2.6	-2.9	-2.7	-2.7	-2.0	-2.0	-2.0
Public debt (% of GDP)	16.6	15.4	18.0	20.0	22.0	22.0	22.0
Current account balance (% of GDP)	-12.6	-14.4	-8.1	-6.9	-7.5	-7.6	-6.6
Official FX reserves (EUR bn)	0.7	0.6	1.2	1.4	1.4	1.5	1.5
Gross foreign debt (% of GDP)	17.1	15.8	14.8	14.2	13.6	13.0	12.3
EUR/USD (avg)*	1.33	1.39	1.29	1.33	1.34	1.20	1.20

** EUR official currency in Kosovo*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Lacking sustainable growth drivers

- **Economic growth hit by Russian slowdown**
- **Fall in output and exports compensated by private consumption**
- **Russian subsidies bring some support, but weak fundamentals remain**
- **Modest economic growth in 2015 and onwards**

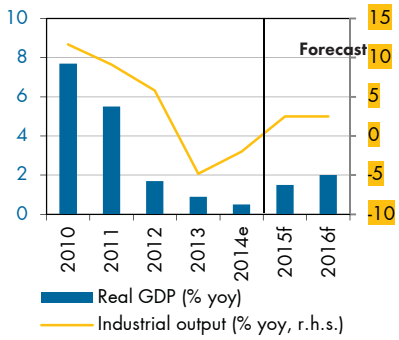
While the USA and Central European economies are showing an upswing in growth rates, a number of factors continue to have **negative implications on economic performance** in Belarus (GDP growth was 1.6% yoy for Jan-Jul 2014). These include **exports suffering** from the ongoing deceleration of the Russian economy, the **fall in industrial output** and large-scale overstocking. At the same time, amidst slightly falling exports, the trade balance deficit is improving ("only" USD 0.4 bn in Jan-Jul 2014 vs. USD 1.7 bn for the same months in 2013), as import dynamics are decelerating even faster. Further trade deficit narrowing can be expected thanks to administrative measures to cut imports, an increase in exports of potash fertilisers and higher food exports to Russia.

As for the external finances, the Belarusian state strongly depends on various Russian subsidies worth billions of USD per year. The **current account deficit remains relatively high** (USD 2.5 bn or 7.2% of GDP in H1 2014) and **substantial external debt** must be rolled over each year. Market or western financing is currently not an option. External accounts remain highly stretched, and the National Bank of Belarus is likely to continue its policy of gradual BYR depreciation which started in H2 2013, leading to inflation rates in the double-digit range. The recently received USD 2 bn Russian loan and additional financing will compensate for the continued drain of foreign reserves. Still, we expect the C/A deficit to remain one of the major problems in the coming years.

Given our main scenario of a stagnating Russian economy in 2014, we would still **count on slow economic growth in Belarus**, based on some growth in private household demand. However, with the muted mid-term and long-term economic outlook for Russia and reorientation to other export markets being highly challenging for Belarus manufacturers, we would **not bank on a strong recovery in 2015 and onwards**.

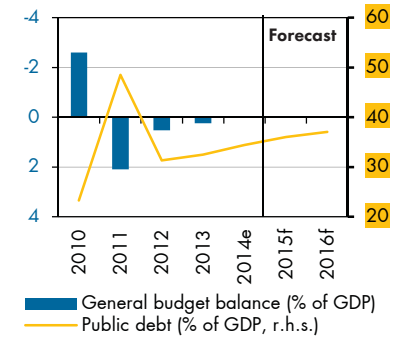
Financial analyst: Mariya Keda, Priorbank Open Joint-Stock Company, Minsk

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Key economic figures and forecasts

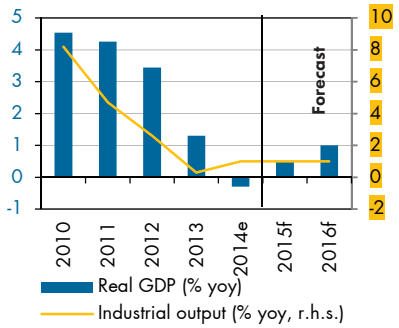
	2010	2011	2012	2013	2014e	2015f	2016f
Nominal GDP (EUR bn)	41.6	43.1	49.3	53.8	56.5	65.3	68.0
Real GDP (% yoy)	7.7	5.5	1.7	0.9	0.5	1.5	2.0
Industrial output (% yoy)	11.7	9.1	5.8	-4.8	-2.0	2.5	2.5
Unemployment rate (avg, %)	0.7	0.5	0.5	0.5	1.0	1.0	2.0
Nominal industrial wages (% yoy)	25.3	59.2	93.8	35.2	25.0	20.0	15.0
Producer prices (avg, % yoy)	13.6	71.4	76.0	13.6	12.9	12.5	10.0
Consumer prices (avg, % yoy)	7.7	53.2	59.2	18.3	21.0	20.0	15.0
Consumer prices (eop, % yoy)	9.9	108.7	21.8	16.5	25.0	15.0	15.0
General budget balance (% of GDP)	-2.6	2.1	0.5	0.2	0.0	0.0	0.0
Public debt (% of GDP)	23.3	48.5	31.3	32.5	34.4	36.0	37.0
Current account balance (% of GDP)	-15.0	-8.5	-2.9	-10.2	-5.4	-5.8	-6.8
Official FX reserves (EUR bn)	2.6	4.6	4.4	3.6	2.9	2.8	2.4
Gross foreign debt (% of GDP)	50.9	60.9	51.9	52.7	52.8	52.3	51.4
EUR/BYR (avg)	3,954	7,263	10,748	11,828	13,696	14,220	16,185
USD/BYR (avg)	2,981	5,218	8,360	8,906	10,221	11,850	13,488

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

At the crossroads

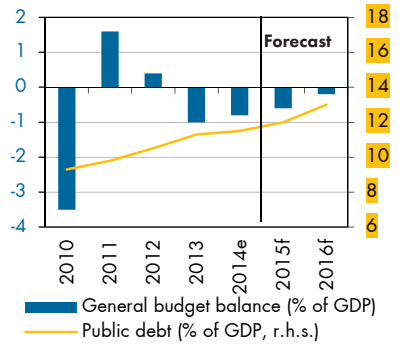
- **GDP forecast for 2014 unchanged, but cut from 1% to 0.5% yoy for 2015 on geopolitical risks and weaker fundamentals**
- **Inflation to increase by 1.5 pp in 2014 and 1 pp in 2015 due to food imports ban**
- **Geopolitical uncertainty and the switch to a floating regime increases the scope of anticipated RUB depreciation**
- **OFZ yields still driven by the Ukraine conflict with risks clearly tilted to the upside**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

Key macro indicators in Q3 did not show any significant improvement. Even if investments decline at a slower pace, their growth rate is expected to remain weak in the medium term. We believe that due to the geopolitical uncertainty the **investment pause could become more prolonged**. Recent data suggest that not all of the shock connected with the Ukrainian situation has been reflected in investment dynamics yet. The **immediate direct impact of the current set of sanctions is mild** for the Russian economy, but the indirect effect is more significant and will become more pronounced over time. The consequences will be limited availability of long-term funding for banks and corporates, a rising cost of borrowing (for both retail and corporates), a weaker rouble and ongoing capital outflows. We also expect that the food imports ban from the EU, USA, Canada, Australia and Norway will increase the CPI level in 2014 by 1.5 pp resulting in a rate of 7.5% yoy. We expect that the **shock will spill over into 2015**, which will translate into an ongoing reduction in investments in 2015 (-4% yoy), but a less acute decline in 2014 (-3% yoy vs. -6% yoy previously). The slight improvement in industrial production figures does not give much hope, given that this is mainly explained by the one-off reflection of volatile marine engines and other heavy equipment production, while core industries still demonstrate weak performance. The stagnation in industrial and investment activity is causing **sharp deceleration of real wages**. As we expect a considerable contraction in economic activity in 2014, further declines in disposable income are also likely. Therefore, we adjusted our previous forecast for household consumption growth from 2% yoy to 1.5% yoy in 2014 and are more cautious about purchasing power in 2015 (1% yoy). We **keep the forecast of GDP growth in 2014** unchanged (-0.3% yoy), but in light of the deteriorating outlook for household demand and investments, we **cut the forecast for 2015 from 1% yoy to 0.5% yoy**.

Key economic figures and forecasts

	2010	2011	2012	2013	2014e	2015f	2016f
Nominal GDP (EUR bn)	1147.1	1342.0	1547.6	1575.9	1494.5	1590.8	1635.9
Real GDP (% yoy)	4.5	4.3	3.4	1.3	-0.3	0.5	1.0
Industrial output (% yoy)	8.2	4.7	2.6	0.3	1.0	1.0	1.0
Unemployment rate (avg, %)	7.5	6.6	5.7	5.6	5.6	5.8	6.0
Average gross wages (% yoy)	12.4	11.5	13.9	12.5	9.0	8.0	7.0
Producer prices (avg, % yoy)	16.7	12.0	5.1	3.7	6.5	5.5	4.5
Consumer prices (avg, % yoy)	6.9	8.5	5.1	6.8	7.3	6.2	5.7
Consumer prices (eop, % yoy)	8.8	6.1	6.6	6.2	7.5	6.0	5.0
General budget balance (% of GDP)	-3.5	1.6	0.4	-1.0	-0.8	-0.6	-0.2
Public debt (% of GDP)	9.3	9.8	10.5	11.3	11.5	12.0	13.0
Current account balance (% of GDP)	4.4	5.2	3.6	1.6	2.7	2.9	2.8
Official FX reserves (EUR bn)	331.0	349.7	369.1	342.9	362.2	400.0	360.0
Gross foreign debt (% of GDP)	31.8	31.1	31.3	33.7	38.5	40.3	37.5
EUR/RUB (avg)	40.3	40.9	39.9	42.3	48.0	47.8	49.3
USD/RUB (avg)	30.4	29.4	31.1	31.9	35.9	39.8	41.1
Basket/RUB (avg)	34.8	34.6	35.1	36.6	41.3	43.4	44.8

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

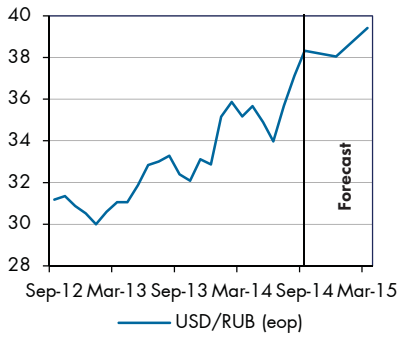
Financial market outlook

As the geopolitical situation deteriorated significantly in July-August, RUB continued on a depreciation path as expected. Furthermore, in mid-August the CBR reduced the interventions within the FX band to zero and widened the band itself from 7 to 9 RUB. This resulted in **higher RUB volatility and intensification of the depreciation**, given the negative newsflow. Fundamentally weaker imports (both due to the food imports ban and the economic slowdown) are supportive for RUB dynamics. However we do not think it will be enough to change the RUB depreciation trend in the medium term. We expect the **tendency of capital outflow to remain in 2015**. Despite the fact that capital outflow is anticipated to be significantly lower than in 2014, it is hardly likely to be lower than the current account surplus, i.e. most likely the balance of payments will be negative again (but less negative than in 2014). Moreover, the **CBR will switch to modified free floating in 2015, which will increase the sensitivity of RUB fluctuations to external shocks**. With higher volatility it may mean that the same amount of deterioration in fundamentals will lead to more significant depreciation. Nevertheless, given the already prolonged depreciation of RUB, we would expect **some short-term rebound during in Q4** from somewhat oversold levels.

A new wave of sanctions against Russia was imposed in July-August (e.g. cut-off of major state-owned Russian banks from US/EU financing) and sparked another **sell-off on the OFZ market**, pushing 10y bond yields up by around 100bp. The increase was much higher than the 50bp key rate hike which had been delivered by the CBR at the end of July. The increase in OFZ yields would have been even more significant if the FinMin had not taken a pause in issuing new paper. Russian debt managers were free to do so as there is no urgent need for borrowing as the federal budget was in surplus for eight months (2% of GDP). Going forward, **OFZ pricing will continue to depend mostly on the geopolitical situation in relation to Ukraine**. Theoretically, the EU/US might decide to ban investments in Russian state debt securities. In our view, in such case yields on OFZ could jump by 100-150bp if non-residents sell OFZs in an amount of USD 10-15 bn (as an indirect effect of a potential ban). In comparison with REPO rates, OFZs, however, still look expensive as spreads are around 185bp whereas before market liberalisation it was 250-300bp. Despite **geopolitical uncertainty makes the CBR's decision on the key rate hardly predictable**, we continue to expect a moderate adjustment to the policy rate, first of all due to inflationary concerns, by 50bp, followed by a flat interest path over our entire forecast horizon. Against this backdrop shorter-dated OFZ tenors offers speculative opportunities.

Financial analysts: Maria Pomelnikova, ZAO Raiffeisenbank, Moscow
Stephan Imre, RBI Vienna

Exchange rate development



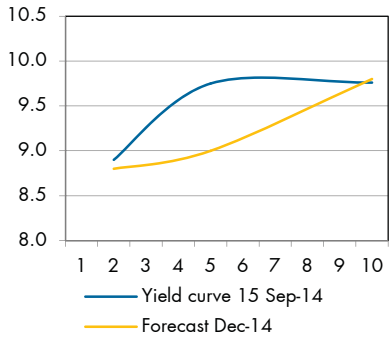
USD/RUB: 5y high 38.33, 5y low 27.28
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
EUR/RUB	49.57	47.9	48.5	47.3	47.3
Cons.		*47.96*	*47.18*	*46.92*	*46.48*
USD/RUB	38.33	38.1	39.4	39.5	40.4
Cons.		*36.85*	*36.97*	*37.12*	*37.45*
RUB basket	43.39	42.5	43.5	43.0	43.5

[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

RUB yield curve (%)*



** 2y – 10y LCY government bond yields*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts

	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
Key rate	8.00	8.50	8.50	8.50	8.50
Cons.		*8.00*	*7.88*	*7.63*	*7.13*
1 month[2]	9.31	10.40	10.10	10.30	10.30
3 month[2]	10.20	10.80	10.50	10.60	10.70
6 month[2]	10.37	10.90	10.60	10.70	10.80

[1] 5:00 p.m. (CET) [2] Bid rate
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Yield forecasts

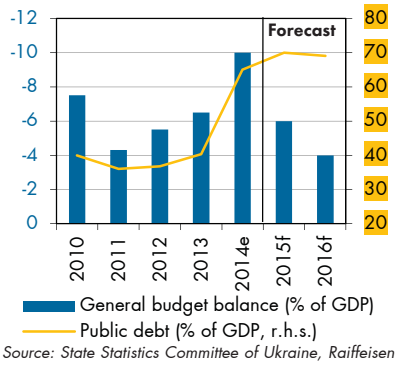
	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
2y T-bond[2]	9.18	8.8	8.8	8.8	8.8
Cons.		*n.v.*	*n.v.*	*n.v.*	*n.v.*
5y T-bond[2]	9.32	9.0	9.0	9.0	9.0
10y T-bond[2]	9.69	9.8	9.8	10.0	10.0
Cons.		*n.v.*	*n.v.*	*n.v.*	*n.v.*

[1] 5:00 p.m. (CET) [2] Ask yield
Source: Bloomberg, RBI/Raiffeisen RESEARCH

War-torn economy on the edge

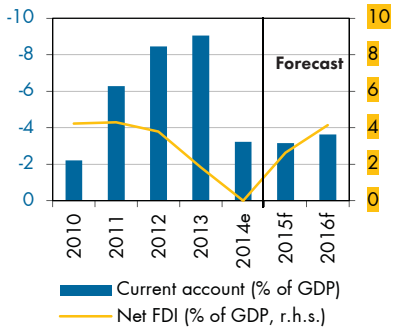
- **Military conflict of four months takes a heavy toll on the already fragile economy; fragile ceasefire**
- **Without political solution the economy will remain in recession at least until mid-2015**
- **NBU will try to limit currency depreciation beyond USD/UAH 13-14, but firepower limited**
- **Issue of external debt restructuring to remain on the table with discussions on PSI to intensify**

Budget balance and public debt



Source: State Statistics Committee of Ukraine, Raiffeisen RESEARCH

Current account and FDI inflows



Source: State Statistics Committee of Ukraine, Raiffeisen RESEARCH

Economic outlook

Economic developments continue to be dominated by the military conflict in the eastern region of Donbass. However, **in late August the separatists, with the allegedly strong involvement of Russian regular army forces, managed to fight back**, regaining some ground and **forcing President Poroschenko to initiate a ceasefire agreement**. Although the situation in Donbass has normalised somewhat following the signing of the deal (i.e. the intensity of fighting decreased, a swap of prisoners took place), it is **extremely hard to see this as a long-lasting, sustainable solution**, given the widely diverging goals of both sides to the conflict. In particular, the vast majority of Ukrainians (including over a half of the population in the Eastern regions) support the unified state and European integration vector, but also want to see more economic decentralisation of the regions. On the other side, the separatist leaders, apparently backed by Russia, demand a federal solution for the region with the veto power over foreign policy decisions of the country. Hence, **we expect the conflict in Donbass to persist for the time being**, but whether it will be rather intensive or will take a frozen form remains a question. On the domestic political front, the main topic is the **snap parliamentary election, scheduled for 26 October**. The **pro-democratic, statehood parties** (i.e. the political forces behind incumbent President and Prime Minister, the new movements emerging on the basis of civil society groups, which were at the heart of Euromaidan protests) are **expected to take the majority**, which should provide the legitimacy for the highly-needed political and economic reforms, including decentralisation, deregulation, overhaul of the public service and judiciary systems.

The **GDP decline deepened to 4.6% yoy in Q2** (from 1.1% in Q1) as production activity in Donbass (which accounts for 15% of Ukraine's GDP, but 25% of exports and industrial output) ended. We expect **Ukraine's economy to contract by**

Key economic figures and forecasts

	2010	2011	2012	2013	2014e	2015f	2016f
Nominal GDP (EUR bn)	102.7	117.2	135.8	134.3	97.1	95.0	100.7
Real GDP (% yoy)	4.2	5.2	0.2	0.0	-7.0	-2.0	3.0
Industrial output (% yoy)	10.7	8.1	-0.5	-4.0	-9.0	-4.5	3.5
Unemployment rate (avg, %)	8.1	7.9	7.7	7.5	8.5	9.0	8.5
Nominal industrial wages (% yoy)	21.9	20.9	15.0	8.0	2.0	0.0	5.0
Producer prices (avg, % yoy)	20.9	19.0	3.6	-0.1	15.5	19.0	11.0
Consumer prices (avg, % yoy)	9.4	8.0	0.6	-0.2	11.3	13.0	9.0
Consumer prices (eop, % yoy)	9.1	4.6	-0.2	0.5	19.0	12.0	8.0
General budget balance (% of GDP)	-7.5	-4.3	-5.5	-6.5	-10.0	-6.0	-4.0
Public debt (% of GDP)	40.0	36.0	36.8	40.3	65.0	70.0	69.0
Current account balance (% of GDP)	-2.2	-6.3	-8.5	-9.0	-3.2	-3.2	-3.6
Official FX reserves (EUR bn)	24.8	23.4	17.2	12.5	13.0	13.9	14.2
Gross foreign debt (% of GDP)	85.2	83.0	74.3	77.0	107.6	127.2	124.1
EUR/UAH (avg)	10.5	11.1	10.4	10.8	15.6	17.0	17.4
USD/UAH (avg)	7.9	8.0	8.1	8.2	11.6	14.1	14.5

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

at least 7% yoy in 2014 and the country might **remain in recession in 2015** if the conflict in the east is not resolved in the next 3-6 months. Inflation is currently on the rise, fuelled by large-scale exchange rate adjustment and administrative tariff hikes. Hence, **eop CPI is to increase by 19% yoy in 2014**, while next year's CPI growth is expected in the low double digits. On the positive side, the C/A has adjusted massively already, mostly due to the sharp drop in imports, while export performance has been dampened by the trade war with Russia and the production halt in the war-torn Donbass region. We expect the C/A deficit to come in at around 3% of GDP in 2014 and 2015 – down from over 9% in 2013.

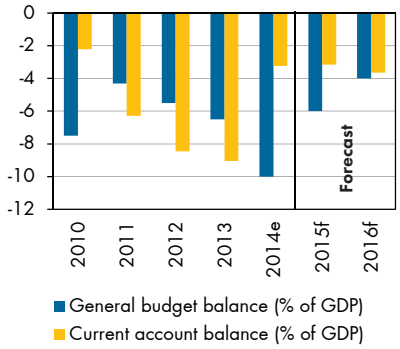
Financial market outlook

After losing over 30% in value in early 2014, the USD/UAH exchange rate managed to stabilise in mid-May in the broad range of 11.50-12.00, thanks to the inflow of external financial support. At some stage, the hryvnia even experienced appreciation pressure, which allowed the central bank to replenish its scarce FX reserves. However, the elevation of domestic political tensions in late July raised depreciation pressures on hryvnia once again. Consequently, FX demand surged, pushing the USD/UAH rate to historical highs above 14. The National Bank was somewhat slow to react to the currency weakness, but then had to step in with a mixture of market measures (i.e. FX interventions, rate hikes) and administrative measures, which **helped to bring the exchange rate to the current levels of around USD/UAH 13**. In particular, the NBU set the surrender requirement at 100%, introduced restrictions on non-cash FX purchases and cut the limit of banks' open long FX position. These measures apparently go against the NBU's declared goal of a transition to a flexible exchange rate framework, but in our view the **temporary tightening of the administrative grip is justified** as the latest spike in the exchange rate is not backed by economic fundamentals and is mostly due to psychological factors. The same view seemed to be shared by the IMF, which supported Ukraine by **releasing the 2nd loan tranche of USD 1.4 bn in early September** and agreed to merge the next two tranches in the total amount of USD 2.8 bn.

The outlook for the local currency is heavily dependent on the political developments and the willingness of the Western donors to support Ukraine. With no positive political solution in sight for the short term, the **hryvnia might remain under substantial pressure**, while the NBU will try to limit depreciation beyond the level of 13-14, aiming to preserve the stability of the banking system and keep inflation under control. However, the **financial firepower of the central bank is limited**, while the administrative measures will not be effective in the longer run. Thus, we expect that Ukraine might need more resources to be committed by the foreign donors. In this respect, the **issue of external debt restructuring might also remain on the table**, albeit its prospects are still far from clear. In particular, the incentives of the Ukrainian authorities might not be high, as restructuring provides only limited cash savings to the government for the next 15 months. Nevertheless, if political and economic turmoil in Ukraine persists, we expect that the discussion on private sector involvement (PSI) might intensify.

Financial analysts: Dmytro Sologub, Raiffeisen Bank Aval Public Joint Stock Company, Kiev

Budget and current account balance



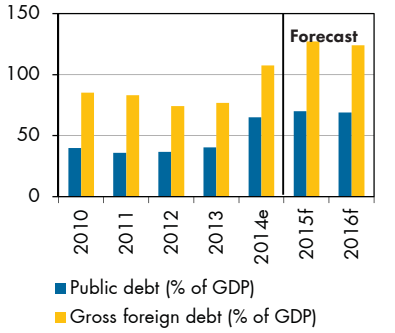
Source: State Statistics Committee of Ukraine, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
EUR/UAH	16.76	17.0	17.2	17.0	16.8
Cons.		*16.1*	*16.1*	*16.0*	*15.9*
USD/UAH	12.96	13.5	14.0	14.2	14.4
Cons.		*12.3*	*12.4*	*12.4*	*12.5*

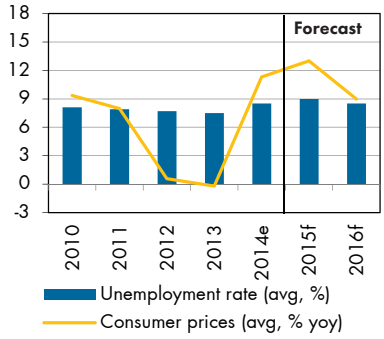
[1] *5:00 p.m. (CET)*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Public and external debt



Source: State Statistics Committee of Ukraine, RBI/Raiffeisen RESEARCH

Inflation outlook

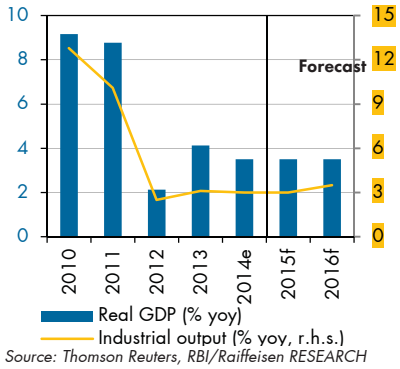


Source: State Statistics Committee of Ukraine, RBI/Raiffeisen RESEARCH

Weak Q2 raises growth fears

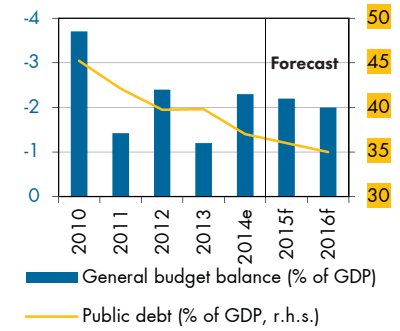
- **Weak Q2 GDP growth performance tilts risks for growth in 2014/2015 to the downside**
- **Risk of political pressure on the TCMB becoming too high and rate cuts spooking the market again**
- **Turkish lira markets to remain sensitive to changing expectations of global monetary conditions**
- **TURKGBs, however, could witness a relief rally in the upcoming quarter following the latest sell-off**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget and current account balance



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

The second quarter showed deceleration both in GDP and monthly reported industrial production dynamics (GDP 2.1% yoy, IP 2.6% yoy). In qoq terms, **GDP shrank by 0.5% in Q2, after a stellar performance of 1.8% in Q1**. Domestic demand weakened substantially (even dropping to negative levels in sum), while import contraction and export growth led to a positive net export contribution of 2.7 pp. Trade sector stagnated, and construction and industrial production growth fell by half. **Recent data make the official growth forecast of 4.0% this year hardly achievable; growth of around 3% is more realistic**, representing a clear downward risk to our 2014 forecast of 3.5%. For 2015, we see external risks from slower-than-anticipated euro-area growth and the difficult situation in Syria and Iraq. It is not surprising that the **current account deficit is declining substantially this year**. Merchandise imports in USD terms are down 6%, while exports are up by 6% ytd. Despite the positive trend, it is still elevated at around 5% of GDP. This is one of the main macroeconomic weaknesses of the country, as it makes Turkey dependent on uninterrupted capital inflows. **Inflation is a major headache** with current figures between 9 and 10%, and some measures of core inflation exceeding 10%. Nevertheless, the extraordinary key rate hike of early 2014 has been rolled back in part, indicating monetary loosening which some fear is premature. High inflation is still being influenced by the almost 20% nominal devaluation in 2013, but this is an effect which will soon fade out. While nominal credit growth slowed down to about 15% yoy earlier this year, it has picked up again to 20%. Thus, **more expansionary monetary policy poses a risk for inflation**. Generally speaking, the upcoming parliamentary elections in the summer of 2015 entail a risk that fiscal policy may be loosened. But with Erdogan now President and Turkey having a very good track record in fiscal policy matters (much better than in monetary policy), **we would not be too worried about adherence to fiscal prudence**.

Key economic figures and forecasts

	2010	2011	2012	2013	2014e	2015f	2016f
Nominal GDP (EUR bn)	549.5	554.8	611.6	622.4	605.8	718.3	786.1
Real GDP (% yoy)	9.2	8.8	2.1	4.1	3.5	3.5	3.5
Industrial output (% yoy)	12.8	10.1	2.5	3.1	3.0	3.0	3.5
Unemployment rate (avg, %)	11.7	9.6	9.0	9.5	n.a.	n.a.	n.a.
Nominal industrial wages (% yoy)	8.0	8.0	6.0	6.0	n.a.	n.a.	n.a.
Producer prices (avg, % yoy)	8.5	11.1	6.1	4.5	n.a.	n.a.	n.a.
Consumer prices (avg, % yoy)	8.6	6.5	8.9	7.5	9.0	8.3	7.0
Consumer prices (eop, % yoy)	6.4	10.5	6.1	7.4	9.5	7.0	7.0
General budget balance (% of GDP)	-3.7	-1.4	-2.4	-1.2	-2.3	-2.2	-2.0
Public debt (% of GDP)	45.2	42.1	39.7	39.8	37.0	36.0	35.0
Current account balance (% of GDP)	-6.2	-9.7	-6.2	-7.9	-5.2	-5.3	-5.3
Official FX reserves (EUR bn)	60.2	60.3	75.8	80.5	n.a.	n.a.	n.a.
Gross foreign debt (% of GDP)	39.7	42.6	42.0	45.3	54.3	53.6	48.2
EUR/TRY (avg)	2.00	2.34	2.31	2.53	2.92	2.74	2.76
USD/TRY (avg)	1.51	1.68	1.80	1.91	2.18	2.28	2.30

Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

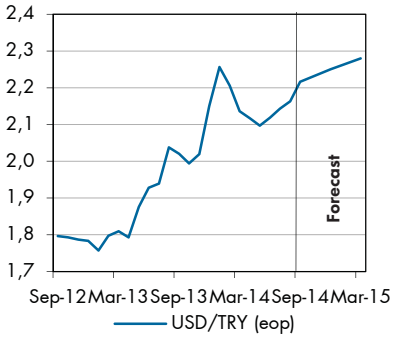
Financial market outlook

Compared to the end of the second quarter the Turkish lira depreciated by more than 4% against the US dollar. By the end of September, TRY had fallen to the lowest level since end of March when we witnessed a significant appreciation move as the AK Party (Justice and Development Party) won the local elections in March. Although Tayyip Erdogan won the presidential elections in the first round and the new Prime Minister Ahmet Davutoglu presented an ambitious government programme aimed at boosting economic growth potential, the **political situation in Turkey is likely to remain uncertain** until at least the middle of next year, when parliamentary elections are due. The 18th general elections are planned to be held on 13 June 2015. Market sentiment is even more affected by the conflicts in Ukraine and Iraq. The **Turkish lira will remain exposed to external market risks**. This could have a negative impact on current account dynamics and finally the lira. According to Economy Minister Nihat Zeybekci, the ministry is working on measures to reduce imports which will be announced in the coming months. Turkey's import dependence, particularly in the field of energy, is one of the main causes of its current account deficit. Furthermore, Turkish assets are especially sensitive to changing expectations about global liquidity tightening because the current account deficit is financed by foreign capital inflows. Any concerns that those flows might slow down tend to hit the Turkish lira and **faster-than-anticipated rises in US interest rates might dampen demand for Turkish assets**. All in all, TRY depreciation (against USD) will likely continue.

From a EUR-based investor's perspective, the moderate gains of TRY vs. EUR watered down the unfavourable price performance of LCY debt somewhat since our previous strategy publication from the end of Q2 2014. Along with Hungary and Russia (with the latter being a special case due to hazardous geopolitics), Turkey again proved strongly sensitive to external shocks. The **latest sell-off wave from July/August was triggered by the re-pricing of US rate hike expectations** which brought market expectations closer to our Western colleagues' call (first Fed hike already in Q1 2015). In line with the regional trend, longer tenors on the TURKGB curve underperformed shorter dated ones in the observed period. Although we assume that there is only limited room for considerably lower yields in the short term, possible rate cuts in a measured way in tandem with attractive valuations currently could argue in favour of the Turkish debt market (with focus on the 2y segment). FX risks, however, pose the biggest risk to our bullish call. On a longer-term horizon, easing of (geo)political risks and inflationary pressures on the domestic front should spur the normalisation of the yield curve.

Financial analysts: Andreas Schwabe, CFA, Martin Stelzeneder, CEFA, RBI Vienna

Exchange rate development



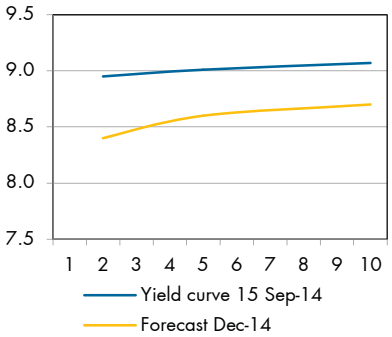
USD/TRY: 5y high 2.34, 5y low 1.4
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
EUR/TRY	2.87	2.84	2.80	2.70	2.67
Cons.		*2.85*	*2.86*	*2.88*	*2.87*
USD/TRY	2.21	2.25	2.28	2.25	2.28
Cons.		*2.19*	*2.21*	*2.23*	*2.25*

[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

TRY yield curve (%)*



** 2y – 10y LCY government bond yields*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts

	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
Key rate	8.25	*7.75*	*7.75*	*7.75*	*7.75*
Consensus		*7.75*	*7.75*	*8.00*	*8.00*
1 month[2]	8.50	8.10	8.30	8.50	8.30
3 month[2]	9.05	8.50	8.70	8.80	8.60
Consensus		*8.82*	*8.83*	*8.70*	*8.89*
6 month[2]	9.45	9.00	9.20	9.40	9.10
12 month[2]	9.70	9.30	9.50	9.70	9.40

[1] 5:00 p.m. (CET) [2] Bid rate
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Yield forecasts

	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
2y T-bond[2]	8.87	8.4	8.6	8.8	8.6
Cons.		*8.71*	*8.59*	*8.62*	*8.40*
5y T-bond[2]	8.90	8.6	8.7	9.0	8.7
10y T-bond[2]	9.02	8.7	8.8	9.1	8.8
Cons.		*9.37*	*9.45*	*9.10*	*9.09*

[1] 5:00 p.m. (CET) [2] Ask yield
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Affirmative outlook for 2014, negative next year

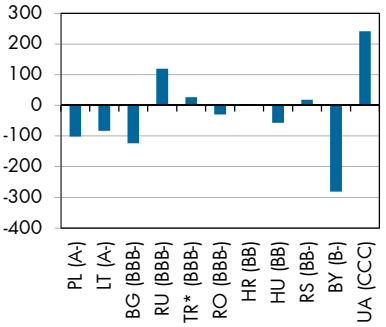
- **Relative underperformance of CEE vs. Global EMBIG largely due to rising geo-political tensions in Ukraine**
- **We foresee CEE sovereigns returning to primary markets in Q4, attracted by cheap funding conditions**
- **We regard the current spread widening on the US Fed policy fears as partly overdone**
- **We take a positive view on CE sub-region including sovereign bonds of Poland and Hungary**

EMBIG USD value & spreads*

	15-Sep[1]		Spread values, bp		
	Index	Spread, bp	Q/Q	5y min	5y max
PL (A-)	564	89	-13	80	361
LT (A-)	161	108	-9	91	493
BG (BBB-)	1018	68	0	31	378
RU (BBB-)	897	311	80	151	456
TR* (BBB-)	668	218	-3	137	411
RO (BBB-)	136	161	-8	151	528
HR (BB)	139	254	5	145	657
HU (BB)	272	198	1	149	726
RS (BB-)	207	273	7	217	724
BY (B-)	145	510	-32	487	1706
UA (CCC)	570	1032	307	393	1212
Europe*	**1001**	**262**	**29**	**171**	**485**
Africa	875	261	-16	183	462
Asia	566	183	-15	133	335
Mid East	466	351	-24	280	514
Latam	616	380	50	285	526
Global	678	301	27	227	476
Inv.grade	519	191	6	135	324
BB	615	255	4	188	500
B	1075	791	116	406	1099

[1] closing prices 5:00 p.m. (CET)
** TR - Turkey Fitch rating, Europe - CEE, Q/Q - quarter-on-quarter, 5y - 5-year minimum and maximum*
Source: Thomson-Reuters, RBI/Raiffeisen RESEARCH

CEE EMBIG rating spread, bp*



** JPM USD EMBI Global index family, TR - Turkey Fitch rating*
Source: Thomson-Reuters, RBI/Raiffeisen RESEARCH

Market trends

The rising **tail risks** from **US treasury market** and a **sharp escalation** of **geo-political risks** due to **Ukraine-Russia conflict** has been reflected in the **abysmal performance** of **CEE sovereign Eurobond market**. In Q3 the CEE region returned a negative 1.2% which became the second worst result in EMBIG after Latin America. Ukraine and Russia were the worst performers in CEE, while higher demand for more stable Poland and Romania allowed them to outperform the rest. Perhaps incidentally Belarus EMBIG also gained strongly, possibly on the outlook for Russia being now more generous with its closest ally after having lost Ukraine. Despite this we find Belarus sovereign liquidity metrics remaining pretty weak amid its strong dependence on Russian investments and funding. Compared to market prices the rating situation remained relatively stable in Q3, with only one **rating downgrade**. In line with our expectations Fitch downgraded **Croatia's sovereign rating** from BB+ to BB assigning a stable outlook to the rating. Finally S&P changing its outlook on Ukraine from stable to positive did little to remedy the situation as the risk of debt restructuring in this market increased substantially. That said **rating pressure on Russia remains**, with negative outlooks by all three rating agencies and markets pricing in at least a one notch downgrade.

Primary markets

In Q3 primary markets for CEE sovereigns remained largely inactive due to highly volatile market situation. As a result during this period only Poland and Macedonia sold a 500 mn in CHF and EUR bonds respectively. Overall the CEE sovereign issuance fell down 90% from nearly EUR 9 bn to just EUR 900 mn. Nevertheless, the **outlook** for **primary** markets is **likely to strengthen** in Q4 and there are good signs of tensions in Ukraine receiving some de-escalation we would foresee more CEE sovereigns returning to the primary markets during next quarter. In particular Lithuanian government announced its plans to borrow EUR 1 bn from Eurobond markets in Q4, while **Serbia, Czech Republic, Turkey** and a few others may follow suit.

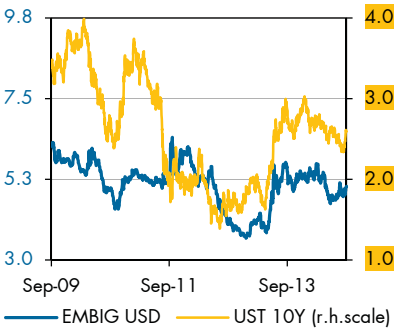
Outlook & Strategy

Although we project normalisation of market conditions and lower sovereign spreads in Q4 there remains substantial amount of risk triggering a fairly bearish view on the following year 2015. In particular **we regard** the **current spread widening** on the **US Fed policy fears** as partly overdone (even early rate hikes are unlikely to be followed by very aggressive additional tightening) while the **Ukraine crisis** begins to receive **some de-escalation**. As a result **these two main risk factors** are **likely to moderate** while **high cash positions** in fund management industry and **relative underperformance of CEE region** on geo-political fears in Q3 could lure more investors to do bottom-fishing in CEE sovereign Eurobonds. We also would not exclude the possibility of year-end "pre X-mas" rally which could lead to further compression of spreads. Inside CEE we take a **positive view on CE credits**, among them **Poland** and **Hungary**. In particular in **Hun-**

gary we could see a single one notch **rating upgrade** from S&P which, technically speaking, rates the country's risk one notch below its main competitors Fitch and Moody's. Hungary's falling exposure to FX loans, better public finances and strong international liquidity should command the attention of rating agencies. In Poland we also like relatively strong fundamentals and fiscal discipline amid relatively low volatility of its market. In **SEE we prefer more stable Romania** while we take a **negative view** on **Croatia**. Despite the market volatility Romania appears less exposed to Ukraine crisis and Russian trade embargo in comparison to other CEE peers. Meanwhile prudent fiscal management allows the flexibility for the national bank to use monetary tools for curing the economic deceleration. On the contrary the **sovereign credit story** in **Croatia** looks more **alarming** to us as the country remains unable to kick-start the economic growth this year and many forecasts now pointing to another "lost year". The six years of economic stagnation and bleak outlook for the coming year point to strong obstacles of fundamental nature, i.e. high tax burden, anaemic investment activity and negative impact of HRK-EUR peg for the economy. So, in the absence of fiscal and structural reforms Croatia could face a problem of debt sustainability. In CIS region we find overall bearish outlook due to the fundamental political changes irrespective of the Ukraine conflict de-escalation. First of all **strong deterioration** of the **economic and payment situation in Ukraine** leads us to believe that an **external debt restructuring** could become imminent over the next 6-12 months. In particular we fear that such a restructuring will target Eurobonds among other debt classes, while complex issues will have to be tackled. Will an external debt restructuring be sufficient to restore public debt sustainability? If so, the NPV losses may have to be huge for Eurobond holders. That said, long-term experience with sovereign restructurings shows that such exercises tend to come (too) late. This holds especially true when IMF and other official creditors are engaged in stabilizing a given country. Hence a restructuring may come later than sooner. At the same time **looming recession in Russia may also lead to a sovereign rating downgrade**. Meanwhile progress on Ukraine de-escalation and remaining issues between Russia and the West will most likely delay the removal of economic sanctions.

Financial analyst: Gintaras Shlizhyus

CEE EMBIG vs. UST 10y yields (%)*



** JPM EMBI Global index family*
Source: Thomson-Reuters, Bloomberg, RBI/Raiffeisen RESEARCH

CEE Ratings Direction

	rating *	RBI View **
CZ	AA-/A1/A+	⇔
SK	A/A2/A+	⇧
PL	A-/A2/A-	⇔
SI	A-/Ba1/BBB+	⇔
HU	BB/Ba1/BB+	⇔⇧
RO	BBB-/Baa3/BBB-	⇔
BG	BBB-/Baa2/BBB-	⇔
TR	BB+/Baa3/BBB-	⇩⇔
HR	BB/Ba1/BB	⇩
RS	BB-/B1/B+	⇔
AL	B/B1/n.r.	⇔
BH	B/B3/n.r.	⇔
RU	BBB-/Baa1/BBB	⇩
BY	B-/B3/n.r.	⇔
UA	CCC/Caa3/CCC	⇩⇔

** rating - S&P/Moody's/Fitch*
*** RBI View - the likelihood of rating change in 3 to 12 months*
⇔ no change
⇧ upgrade possible
⇩ downgrade possible
Source: Rating agencies, RBI/Raiffeisen RESEARCH

Benchmark Eurobond forecast and performance

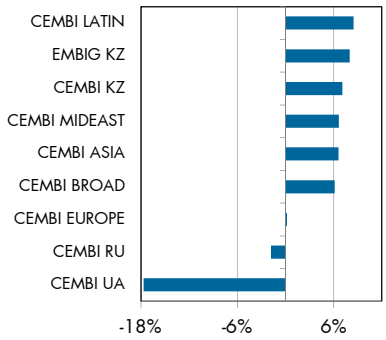
				Spread		Range			Spread	Range			Spread	Range		
		Rating	Dur.	15-Sep	Sep-14	min.	max.	Perf. (%)	Dec-14	min.	max.	Perf. (%)	Mar-15	min.	max.	Perf. (%)
PL 3% due 23	USD	A-	7.6	**77**	**65**	88	53	0.9	**71**	94	59	-3.4	**73**	96	62	-6.6
PL 4.5% due 22	EUR	A-	6.4	**63**	**55**	71	47	1.7	**61**	77	53	0.7	**62**	78	54	-0.7
LT 6.625% due 22	USD	A-	6.1	**87**	**70**	104	53	-0.9	**74**	108	57	-4.7	**79**	113	62	-7.5
LT 4.85% due 18	EUR	A-	3.1	**86**	**75**	98	64	0.8	**83**	106	72	0.5	**84**	107	73	0.2
BG 4.25% due 17	EUR	BBB-	2.7	**124**	**120**	129	116	0.5	**141**	150	137	-0.2	**135**	143	130	-0.6
RU 4.5% due 22	USD	BBB-	6.3	**227**	**200**	255	173	-0.3	**224**	278	196	-5.5	**225**	280	198	-8.1
TR 3.25% due 23	USD*	BBB-	7.3	**181**	**170**	192	159	0.8	**197**	220	186	-4.8	**191**	213	180	-7.3
TR 5.125% due 20	EUR*	BBB-	5.0	**242**	**220**	264	198	2.0	**251**	295	229	0.0	**247**	292	225	-0.8
RO 4.375% due 23	USD	BBB-	7.5	**140**	**135**	146	130	0.4	**159**	169	154	-5.1	**151**	162	146	-7.6
RO 4.875% due 19	EUR	BBB-	4.5	**189**	**160**	217	131	2.1	**175**	232	146	1.0	**180**	238	152	-0.1
HR 5.5% due 23	USD	BB	6.8	**239**	**230**	248	221	-1.5	**271**	289	261	-8.3	**258**	276	249	-10.2
HR 6.5% due 15	EUR	BB	0.3	**81**	**90**	72	99	0.0	**113**	95	122	-0.1	**100**	82	109	0.0
HU 5.375% due 23	USD	BB	6.9	**185**	**160**	210	135	1.7	**170**	220	144	-2.4	**176**	226	151	-5.6
HU 3.875% due 20	EUR	BB	4.9	**198**	**175**	221	152	2.0	**180**	226	157	1.3	**187**	233	164	0.0
RS 7.25% due 21	USD	BB-	5.5	**232**	**220**	245	208	-1.1	**246**	271	234	-5.8	**240**	265	228	-7.7
BY 8.95% due 18	USD	B-	2.9	**481**	**450**	512	419	0.2	**500**	562	468	-3.2	**492**	555	461	-4.1
UA 7.5% due 23	USD	CCC	5.8	**778**	**820**	735	862	-4.3	**967**	883	1010	-16.3	**891**	807	934	-14.2

*[1] closing prices 5:00 p.m. (CET); * Perf. as cumulative return of gross prices up to forecast horizon, countries sorted by S&P rating, Turkey - Fitch rating*
Source: Bloomberg, S&P, Fitch, RBI/Raiffeisen RESEARCH

CIS credits: Focus on non-sanctioned entities

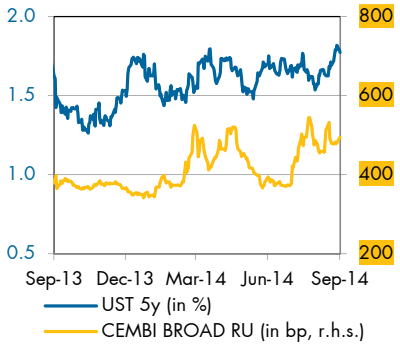
- **Investor sentiment impacted by sanctions spiral**
- **Sanctioned entities likely to feel the pressure for longer**
- **Focus on strong fundamentals and non-inclusion on sanction list**
- **Scope for modest tightening if a solution emerges in Ukraine**

Q3 2014 ytd returns*



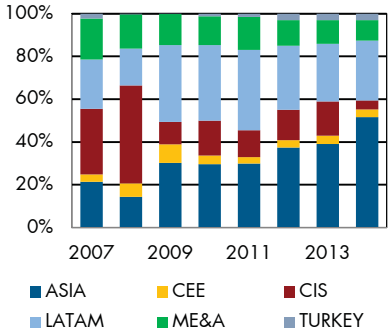
** data are for Broad Series*
5y average annual return in %: EMBIG KZ: 9.7, CEMBI RU: 8, CEMBI EUROPE: 7.9, CEMBI UA: 7.6,CEMBI: 7.6, CEMBI MIDEAST: 7.6, CEMBI ASIA: 7.5, CEMBI LATIN: 7.3, CEMBI KZ: 5.4
Source: JP Morgan, RBI/Raiffeisen RESEARCH

UST vs. CEMBI RU Index



UST: 5y high: 2.82 %, 5y low: 0.54 %
CEMBI BROAD RU: 5y high: 702 bp; 5y low: 254 bp
Source: Bloomberg, JP Morgan, RBI/Raiffeisen RESEARCH

EM corporate issuance (%)



** issues until 16/09/2014*
Source: Bond Radar, RBI/Raiffeisen RESEARCH

Volatility and geopolitical risks have taken the front seat again. The EU/US sanctions and fears of retaliatory actions by Russia have been dominating the headlines. Although the immediate impact of the sanctions is not devastating, volatility has increased as the downturn in the Russian economy will hit some of sectors in the mid-term. However, we maintain our view that the imposed sanctions have no material immediate impact on the liquidity of the targeted Russian corporates, due to their sufficient liquidity buffers and Russian authorities' readiness to provide support. We expect no further escalation in the Ukrainian situation, as this would be mutually counterproductive for all parties involved. However, as the Crimea annexation issue is still unresolved, the "sanctioned entities" label is likely to be around for longer. We expect investors to retain a cautious stance as uncertainty will continue to affect the markets. The tension in Western-Russian relations is expected to remain, but in our view prospects of a tangible solution to the Ukrainian situation will draw in investors searching for attractive yields and hence support spread tightening.

In our view, the reactions of the **Russian authorities shielded the negative impact of sanctions** and can be viewed as credit positive. First, the signing of the deals with China can alleviate some of the negative pressure on Rosneft, Novatek and Gazprom. Also, the announcement of Russia's capital injection in Bank VTB and Russian Agricultural Bank is credit positive, as according to Moody's estimates it could boost the banks' Tier1 ratios to 13.7% (+2.8%) and 15.2% (+1.6%), respectively. We recap that the government will use the Russian National Welfare Fund (NWF) to buy preferred shares from the banks. These preferred shares will replace subordinated loans that state-owned Vnesheconombank extended to banks during the 2008-09 financial crisis. Moreover, the banks' liquidity is also supported by access to the repo operations at the Russian central bank. Still, we think that the **downgrade risk is rising** after Moody's comments that the expanded sanction risks undermine Russia's long-term growth and key credit strengths. A sovereign downgrade would likely be followed by similar rating actions on the country's blue-chip companies.

The global EM corporate credit index has returned 0% for the quarter-to-date. The main contributors were MidEast (0.9%), Asia (0.9%) and Kazakh high yields (HY, 0.5%). By contrast, Ukraine was the weakest link returning -18.2%, followed by Russia (-4.4%). Additionally, the quasi-sovereign Kazakh investment grade segment delivered a solid 1.1% return.

In terms of Q3 spread development, the global EM index showed a mild 18bp widening which means that its positive qtd return was due to the carry. Looking at the CIS remit, Ukraine and Russia significantly underperformed other emerging markets (EM) peers while the Kazakh segment held up well. Ukrainian spreads exploded, widening by 728bp qtd, followed by Russia (+114bp) and Kazakh HY (+5bp). Kazakh quasi-sovereigns tightened by 4bp. After the last round of sanctions, the spread premiums above the levels before the start of Ukrainian-Russian standoff stood at 635bp and 113bp for Ukraine and Russia, respectively. Kazakh HY and quasi-sovereigns tightened in the respective period by 322bp

and 51bp, respectively. 3y, 5y and 10y UST yields surged by 26bp, 23bp and 8bp qtd, respectively, which negatively impacted the performance of CIS credits. We reiterate our view that the future shape of the Fed's monetary policy will be the key external factor for bond valuations in the CIS. A higher UST yield curve is clearly negative for total return investors. However, we think that losses on DM credit products could catalyse more inflows into the CIS space which offers juicier spreads as a compensation for the rising risk-free rate.

Traditionally, the summer holiday season resulted in **slower issuance activity during Q3**. Overall EM issuance for the quarter to date (qtd) has amounted to USD 83.3 bn, which is 8% lower than Q3 2013. Asia remained in the driving seat, accounting for 51% of total issuance with qtd volumes increasing by 73% yoy to USD 42.1 bn. As Western sanctions were toughened, several large Russian companies including Sberbank, VTB, Gazprombank, Rosneft, Gazpromneft and Transneft were banned from access to both the USD and the EUR capital markets. This brought CIS issuance activity to a standstill. CIS-issued volume declined 94% yoy to USD 692 mn accounting for not even 1% of total EM issuance. This included subordinated issues from Promsvyazbank and VTB (issued in CHF). CEE volumes of USD 2.9 bn or 3.5% of EM total once again outpaced CIS, despite the decrease of 42% yoy. Currently, the primary market pipeline is limited. Alfa bank is looking into the issuance of USD 500 mn in sub bonds in September, and Gazprom announced its intentions for around USD 1 bn issuance in the autumn, depending on market conditions. We believe that following the new round of Western sanctions (although the potential issuers' access to capital markets was not restricted), **investors will stay cautious on Russian risk**. For the coming quarter, we expect the market environment to remain volatile and we do not anticipate the activity to pick up suddenly.

In Russia, we suggest focusing on issuers which have not been targeted by the US/EU sanctions. Recently, we changed our recommendation on Gazprom to buy. We think that the company's strong position on the European gas markets (covering over 30% of its needs) will continue to shield it from inclusion on the sanctions lists in regards to access to financing despite the Russian government's controlling stake.

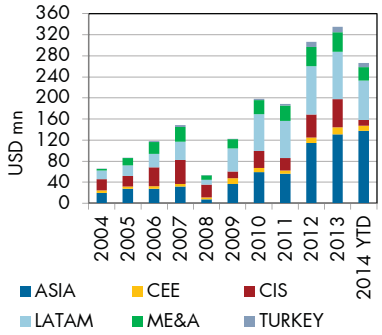
In the Russian banking segment we recommend avoiding **Promsvyazbank**. Although it announced a small T1 transaction to be completed in autumn, we remain concerned about its reliance on T2 bond issues and low core capitalisation against the backdrop of the weakening Russian economy, the high pace of risky consumer lending and the banking system's rising asset-quality risks. We still believe that the bank's credit story remains fragile due to its weakening loss-absorption capacity, scarce core capital and intensified systemic risks in Russia. In contrast, we like Alfa-Bank's **ALFARU 7.875% due 2017** owing to its attractive carry and solid fundamentals.

In the telco segment we keep our sell call on MTS's **MOBTEL 8.625% due 2020** until more clarity is gained with respect to Mr. Evtushankov's case. However, at the same time, we are standing by our view of MTS's strong fundamental position on the standalone basis.

We stick to our view to **avoid Ukrainian credits** due to the elevated sovereign risks and weakened sustainability of public finances. Elsewhere in the CIS we **continue to like Kazakh credits** due to the proven resilience to the rising geopolitical tensions in Russia and Ukraine. We stick to our buy recommendation on Halyk Bank.

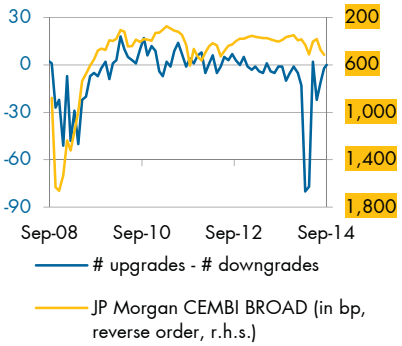
Financial analysts: Martin Kutny, Lubica Sikova, CFA

EM corporate issuance



** issues until 16/09/2014*
Source: Bond Radar, RBI/Raiffeisen RESEARCH

Rating drift in Russia



CEMBI BROAD: 5y high: 571 bp; 5y low: 265 bp
Source: Bloomberg, JP Morgan, RBI/Raiffeisen RESEARCH

Selected CIS Eurobonds

Issuer	ISIN	Maturity	Yield in %
Alfa Bank	XS0544362972	25/9/17	6.1
Alrosa	XS0555493203	3/11/20	7.1
Evraz	XS0618905219	27/4/18	8.5
Gazprom	XS0885733153	6/2/20	5.5
Halyk Bank	XS0298931287	3/5/17	4.3
KazMunay-Gaz	XS0556885753	9/4/21	4.4
VimpelCom	XS0587031096	2/2/21	7.2

Source: Bloomberg, RBI/Raiffeisen RESEARCH

Risk aversion expected to decline

- **ATX has shown substantially sub-average ytd performance**
- **Earnings expected to decline in 2014, but better trends in 2015**
- **Higher index levels are realistic for end-2014**

Value matrix*

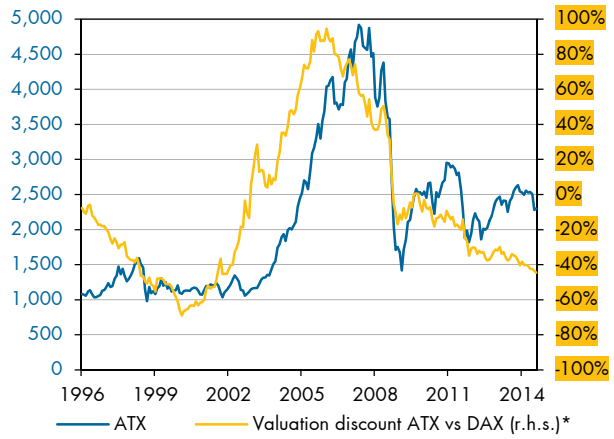
Domestic business activity		3	(3)
Exports	OECD - excl. Eastern Europe	3	(2)
	Eastern Europe	3	(2)
	Asia	2	(2)
Company earnings		3	(2)
Key sectors		3	(2)
Valuation - P/E-ratio		3	(3)
Interest rates / yields		1	(2)
Exchange rates		1	(2)
Foreign equity markets		2	(2)
European liquidity		1	(2)
Technical outlook		4	(2)

1 (4) denotes highly positive (negative) influence on the market. All factors are weighted equally, previous assessment in parentheses
** expected trend for the next 3 to 6 months*
Source: RBI/Raiffeisen RESEARCH, Raiffeisen Centrobank

So far, the **performance of the Austrian stock market** has been rather **disappointing this year**. While markets in the USA and parts of Western Europe were able to advance to new record-high index levels, the Austrian ATX remains well lower than its level from the start of the year. The main factors behind this were the tensions between Russia and Ukraine, and the related effects. Furthermore, the profit warning issued by the index heavyweight Erste Group due to provisioning for bad loans also weighed on sentiment.

There has also not been much impetus from the real economy in recent months, as there are **no signs of a pick-up in economic activity in Austria**. Based on the latest GDP data, it is clear that investments and private consumption are not supportive. Furthermore, no major improvement is expected for the future. Indeed, looking at the leading indicators, it makes more sense to be prepared for below-average economic growth rates both this year and next year. Accordingly, we project that Austrian GDP will rise by 0.9% in 2014 and 1.2% in 2015. The **situation in Eastern Europe** requires a **more differentiated approach**: while economic performance in the CE area can be seen as solid, a contraction is expected in the CIS region this year, due to the weak Russian economy.

ATX shows valuation discount



** Cyclically adjusted price/earnings ratio based on rolling 10 year trailing index earnings*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

In recent months, **corporate performance** has also **not stood out as a source of impetus for the markets**. The results for last quarter were hardly spectacular. Nor were the guidances particularly positive, and the profit warning by the Erste Group was punished massively by the market. This situation is exacerbated by the fact that Erste's management expects sustained pressure on interest margins and slower lending growth. As we had anticipated, the utility company Verbund was unable to maintain its forecasts. In terms of other important companies, Andritz for example confirmed its outlook for significant improvement in net profits and slightly higher turnover.

At the moment, of course, the **conflict between Russia and Ukraine is a major factor**. From the current vantage point, it does not look like the prospects for a quick solution are

Sector structure of the ATX

Sector	Company	Weight
Financials	CA Immobilien, conwert, Erste Group, Immofinanz, Raiffeisen Bank International, Uniqa, Vienna Insurance Group	44.2%
Industrials	Andritz, Flughafen Wien, Oesterreichische Post, Wienerberger, Zumtobel	18.4%
Energy	OMV, SBO	13.6%
Basic materials	Mayr-Melnhof, Lenzing, RHI, voestalpine	17.2%
Telecom	Telekom Austria	4.0%
Utilities	Verbund	2.6%

Source: RBI/Raiffeisen RESEARCH, Raiffeisen Centrobank, Vienna Stock Exchange

very good. Consequently, the risk of further sanctions and counter-sanctions remains. At the same time, the conflict itself and the sanctions imposed by both sides do not really have any direct impact on the development of earnings. The main problems facing companies are still the difficult economic conditions and the regulatory environment. As a result, we were also forced to lower our estimates for earnings growth by the ATX companies in 2014. We now expect **earnings to contract by around 4.2%**. This would represent the second annual loss at the aggregate level. This notwithstanding, we project a **strong rise in earnings again in 2015**.

Naturally, the decline in earnings expectations has also had an impact on valuations. The P/E ratio on the basis of 2014 earnings is currently 17,5. With this, the ATX presently exhibits a **small valuation premium compared to its Western and Eastern peers**. In light of our expectations of a recovery in earnings next year, a decline in valuations is probably realistic. Still, viewed against the backdrop of the ultra-low interest rate conditions, we do not see the current level of valuations as being **expensive**, and would rather still view it as moderate.

Summary: Despite the lacklustre performance so far this year, we are modestly optimistic for the end of 2014. In particular, we do not see the underperformance compared to other indices as being justified. We also do not expect that the conflict in Ukraine will continue to escalate. In our opinion, this should lead to a decline in risk aversion vis-ŕ-vis the Austrian equity market. From a purely fundamental perspective, the market does not look cheap anymore, but we think that – following the profit warnings – investors will now turn their attention more to the development of earnings in 2015, and we are bullish in this regard. Furthermore, thanks to the expansive policies of the ECB we believe that the equity markets in Europe have ample liquidity available, and the ATX should also profit from this. "Buy".

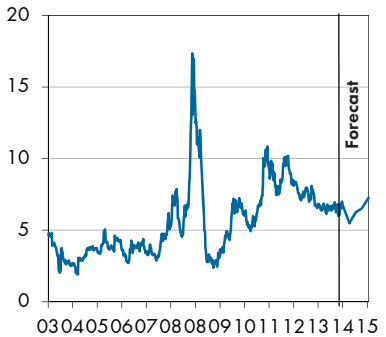
Financial analyst: Johannes Mattner

Fair value of ATX[1] - September 2015

	Bond yields (10y)		
EY-BY[2]	**1.25%**	**1.50%**	**1.75%**
7.50%	2,422	2,355	2,292
7.25%	2,494	2,422	2,355
7.00%	2,569	2,494	2,422
6.75%	2,650	2,569	2,494
6.50%	2,735	2,650	2,569
6.25%	2,826	2,735	2,650
6.00%	2,924	2,826	2,735
5.75%	3,028	2,924	2,826
5.50%	3,140	3,028	2,924
5.25%	3,261	3,140	3,028
5.00%	3,391	3,261	3,140
4.75%	3,533	3,391	3,261
4.50%	3,686	3,533	3,391
4.25%	3,854	3,686	3,533

[1] based on the expected earnings for 2014/2015 (i.e. 212.0 index points)
[2] earnings yield less bond yield
Source: RBI/Raiffeisen RESEARCH, Raiffeisen Centrobank

Earnings yield* less bond yield



** earnings yield = E/P; based on 12-month forward earnings*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH, Raiffeisen Centrobank

Valuation and forecasts

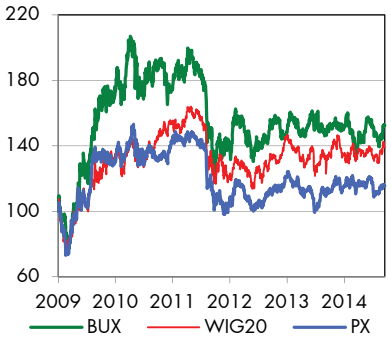
	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15
12-months forward earnings	212.6	151.4	171.4	191.6	212.0
Bond yield forecast	1.65	1.00	1.20	1.40	1.50
Earnings yield less bond yield (EY-BY)	**7.64**	**5.50**	**6.25**	**6.50**	**7.25**
ATX-forecast based on EY-BY		2330	2300	2425	2422
ATX-forecast	**2,287.9**	**2,380**	**2,320**	**2,400**	**2,450**
Expected price change		4.0%	1.4%	4.9%	7.1%
Range		2100-2500	2150-2500	2200-2600	2200-2650
P/E based on 12-month forward earnings	10.8	15.7	13.5	12.5	11.6

[1] 11:59 p.m. (CET); Source: RBI/Raiffeisen RESEARCH, Raiffeisen Centrobank

Expectations of a positive end to the year

- **Geopolitical conflict in Ukraine continues to be an issue**
- **No further significant escalation expected between East and West**
- **Liquidity remains bountiful, providing support**
- **Modest valuations compared to other asset classes**

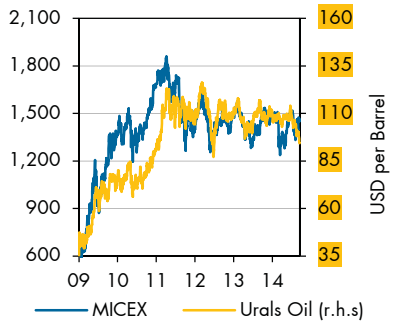
CE core indices



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

During the third quarter, CEE equity markets were marked by alternating risk-on and risk-off periods in relation to the Ukraine/Russia crisis. Although the stock markets were starting to become numb to the crisis, the presence of Russian soldiers in Ukraine (according to NATO) resulted in a sharp escalation of the situation, which in turn led to sanctions and counter-sanctions between the EU/USA and Russia. Most recently, a cease-fire (which appears to be holding) in Eastern Ukraine has resulted in a tangible recovery on the equity markets, with additional support coming from the latest efforts of the ECB to further ease its monetary policy. Nevertheless, we would not incorporate too much optimism about a lasting solution to the conflict into our scenario, as there is still a risk of a spiral of sanctions and counter-sanctions. Along with other geopolitical hotspots (e.g. Iraq), there is some uncertainty emanating from the USA, as it is no longer a question of whether there will be an interest rate hike there, but merely a question of when it will happen. Nonetheless, in light of the modest valuations compared to other asset classes, we expect that the equity markets will head for a friendly final phase of the year.

MICEX vs Oil



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Following the cease-fire agreed between the pro-Russian separatists and Ukraine, the **Russian stock market** quickly started to rally. Still, more sanctions were imposed by the EU and the USA against Russian energy and defence industry companies and these sanctions include restrictions on accessing capital (issues of shares or bonds). In order to mitigate the impact for the companies affected, Moscow has announced a comprehensive aid package for 2015. Along with the direct and indirect effects, the political tensions are also having psychological effects. The investment climate in Russia has deteriorated significantly recently, and we only expect feeble economic growth of just 0.5% for 2015. In addition to the weak development of the oil price, the current depreciation of the rouble is another significant risk factor for investments in Russian shares. Consequently, the Russian central bank will probably raise the key rate by another 50bp to 8.50% in the coming quarter. Earnings growth at the MICEX companies does not really stand out in a positive light. The only source of support is the valuation: the MICEX is trading at an aggregate P/E ratio of 5.0 (2014e) and thus shows a significant discount to the MSCI Emerging Markets Index (12.0). This factor, however, will not have a major effect, unless a sustainable solution to the conflict is

Value matrix stock markets

	PL		HU		CZ		RU		RO		HR		TR	
Politics	2	(2)	3	(3)	2	(2)	4	(3)	2	(2)	3	(3)	3	(3)
Interest rate trends	1	(3)	2	(2)	1	(1)	3	(3)	1	(2)	2	(2)	2	(4)
Earnings outlook	3	(3)	2	(4)	3	(4)	3	(2)	2	(1)	4	(4)	2	(1)
Key sectors	2	(3)	2	(2)	2	(3)	3	(3)	2	(2)	3	(3)	2	(3)
Valuation (P/E)	3	(3)	2	(2)	3	(3)	1	(1)	3	(2)	4	(4)	2	(2)
Liquidity	1	(1)	3	(3)	3	(3)	1	(1)	3	(3)	4	(4)	2	(2)
Technicals	2	(1)	2	(2)	3	(1)	4	(3)	2	(1)	3	(1)	4	(1)

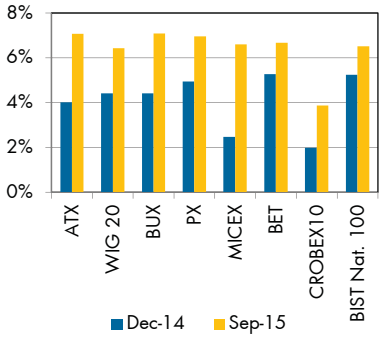
1 (4) denotes highly positive (negative) influence on the market. All factors are weighted equally. Assessment refers to a 3-month period.
Source: RBI/Raiffeisen RESEARCH

found. Accordingly, we do not expect to see any outperformance by Russian shares through to the end of the year. **Hold**.

With just a small gain of 3,7 %, the **Polish** stock market index **WIG 20** was unable to avoid the effects of the Ukraine/Russia crisis, even though the economic impacts of the Russian embargo appear to be modest. The recovery in the Polish economy so far has progressed well, in conjunction with local demand and investment activity. Due to external factors (flagging recovery in the euro area), economic growth in Poland will probably also weaken temporarily, which – in addition to the low rate of inflation – is why we expect another rate cut (50bp). Earnings growth in 2015 is estimated at a modest 5.7%, and the expected P/E ratio of 13.5 for 2015 looks moderate by historical standards, but is still somewhat higher than the Western European level. One clearly positive aspect, however, is that as of the deadline at the end of July around 1.8 million Poles opted to continue paying into private pension funds. This has averted the possible risk that private pension funds would have to sell off their shares to ensure and finance normal pension payments. In light of the solid macro-economic data and the low interest rate level, we expect to see rising inflows of capital for investment in equities over the medium term. **Buy**.

The **Czech leading index PX** has been on a flat trend since the beginning of the year (+0.2%) and thus trails well behind most of its Eastern European counter-

Expected index performance



Source: RBI/Raiffeisen RESEARCH

Indices in performance comparison

	2005	2006	2007	2008	2009	2010	2011	2012	2013	15-Sep-14[1]
ATX	50.8%	21.7%	1.1%	-61.2%	42.5%	16.4%	-34.9%	26.9%	6.1%	-10.2%
BUX	41.0%	19.5%	5.6%	-53.3%	73.4%	0.5%	-20.4%	7.1%	2.2%	0.6%
WIG 20	35.4%	23.7%	5.2%	-48.2%	33.5%	14.9%	-21.9%	20.4%	-7.0%	3.7%
PX	42.7%	7.9%	14.2%	-52.7%	30.2%	9.6%	-25.6%	14.0%	-4.8%	0.2%
MICEX	84.3%	67.5%	11.5%	-67.2%	121.1%	23.2%	-16.9%	5.2%	2.0%	-3.3%
BET	50.9%	22.2%	22.1%	-70.5%	61.7%	12.3%	-17.7%	18.7%	26.1%	9.7%
CROBEX	26.4%	62.2%	63.2%	-67.1%	16.4%	5.3%	-17.6%	0.0%	3.1%	3.7%
BIST Nat. 100	59.3%	-1.7%	42.0%	-51.6%	96.6%	24.9%	-22.3%	52.6%	-13.3%	14.9%
CECE Composite Index	44.7%	14.7%	10.5%	-53.7%	40.5%	15.7%	-29.1%	25.7%	-9.6%	2.3%
DAX	27.1%	22.0%	22.3%	-40.4%	23.8%	16.1%	-14.7%	29.1%	25.5%	1.1%
Euro Stoxx 50	21.3%	15.1%	6.8%	-44.4%	21.1%	-5.8%	-17.1%	13.8%	17.9%	3.9%
S&P 500	3.0%	13.6%	3.5%	-38.5%	23.5%	12.8%	0.0%	13.4%	29.6%	7.3%
MSCI World	13.7%	13.5%	2.8%	-40.1%	22.8%	7.8%	-7.6%	13.1%	26.3%	5.6%

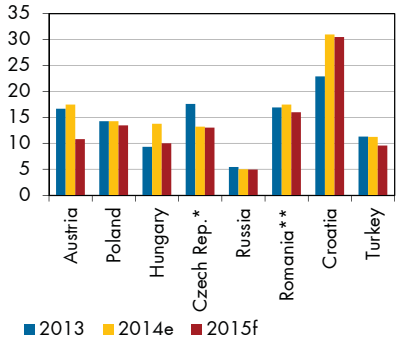
In local currency
[1] 11:59 p.m. (CET)
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

Stock market indicators

	Long-term growth	Earnings growth			Price/earnings ratio			Dividend yield
		13	14e	15f	13	14e	15f	14e
ATX	5.6%	-10.1%	-4.2%	61.8%	16.7	17.5	10.8	2.8%
WIG 20	3.3%	-23.6%	0.0%	5.7%	14.3	14.3	13.5	4.2%
BUX	4.1%	-2.0%	-32.3%	37.7%	9.3	13.8	10.0	3.1%
PX*	5.5%	-10.3%	32.9%	1.3%	17.6	13.2	13.1	4.7%
MICEX	2.9%	-8.5%	7.7%	1.7%	5.4	5.0	5.0	5.1%
BET**	6.8%	14.3%	-2.9%	9.2%	17.0	17.5	16.0	5.4%
CROBEX10	2.1%	0.3%	-26.1%	1.6%	22.9	31.0	30.5	2.1%
BIST Nat. 100	6.5%	3.7%	0.9%	17.0%	11.3	11.2	9.6	2.2%

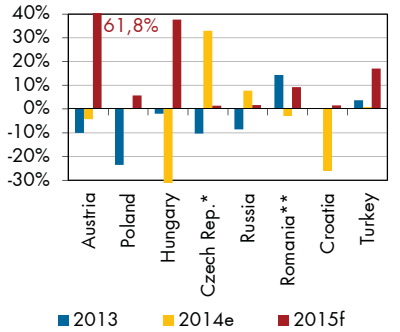
** Czech Rep. (PX): excl. Orco Property Group, New World Resources and Erste Group*
*** Romania (BET) excl. Fondul Proprietatea*
Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

P/E ratios in comparison



** Czech Rep. (PX): excl. Orco Property Group, New World Resources and Erste Group*
*** Romania (BET) excl. Fondul Proprietatea*
Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

Earnings growth



** Czech Rep. (PX): excl. Orco Property Group, New World Resources and Erste Group*
*** Romania (BET) excl. Fondul Proprietatea*
Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

parts. One of the reasons is the around 58% weighting of the financial sector in the index. In line with this, the index dropped significantly following the earnings warning by the heavyweight Erste Group and the generally poor performance of financials. The results of the ECB's balance sheet and stress tests for banks should not feature any negative surprises for the latter and may even have a positive effect on share prices. The currently robust fundamental data, such as the seasonally adjusted growth rate of over 6% yoy in industrial production and retail sales for July, should have a positive effect on corporate earnings over the long term. In light of the low interest rate conditions and solid economic growth (GDP 2014e: 2.6%, 2015f: 2.4%), we anticipate positive performance by the Czech equity market. **Buy**.

The **Hungarian** stock market index **BUX** was little changed following its recent recovery and is just barely in positive territory for the period since the beginning of the year. Even though our forecast for economic growth in 2014 has been revised upwards to 3.0%, we expect to see growth weaken again in 2015, due to external effects (decelerating GDP growth in the euro area and the impact of the Russia/Ukraine crisis). On an index basis, however, aggregated earnings growth in 2015f is projected at 37.7%, leading to our expectations for an index P/E ratio of 10. The impacts of the Ukraine crisis are significantly more weighty for the Hungarian financial market, due to some tight economic ties, in particular with regard to the index heavyweight OTP Bank (32.4%) and Gedeon Richter (23.6%). However, as we do not expect any further escalation of this conflict, we still take a moderately positive view of Hungary. **Buy**.

Following the presidential elections in August won by former PM Recip Tayyip Erdogan, investors continue to focus on political conditions in **Turkey**. In light of the upcoming general elections in June of next year, it is possible that the government will take unorthodox measures and – along with fiscal easing – make efforts to motivate the central bank to keep lowering interest rates, despite the substantial inflation risks. This could result in pressure on the currency and thus also on investments on the stock market in Istanbul. Above and beyond this, the massive lending growth in the private sector (~20%) is based mainly on consumption expenditures and less so on investments and this also has a negative impact on the massive current account deficit (2014e: -5.2% of GDP), along with energy imports. The chronically high C/A deficit is the Achilles heel of the Turkish economy. Con-

Index estimates

	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15	Recommendation
ATX	2288	2380	2320	2400	2450	**BUY**
Performance		4.0%	1.4%	4.9%	7.1%	
Range		2100-2500	2150-2500	2200-2600	2200-2650	
WIG 20	2490	2600	2550	2630	2650	**BUY**
Performance		4.4%	2.4%	5.6%	6.4%	
Range		2250-2800	2200-2700	2300-2800	2300-2850	
BUX	18676	19500	19000	19600	20000	**BUY**
Performance		4.4%	1.7%	4.9%	7.1%	
Range		17000-22000	16500-21500	17000-22000	17500-23000	
PX	991	1040	1020	1050	1060	**BUY**
Performance		4.9%	2.9%	6.0%	7.0%	
Range		920-1120	900-1100	930-1130	940-1140	

In local currency
[1] 11:59 p.m. (CET)
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

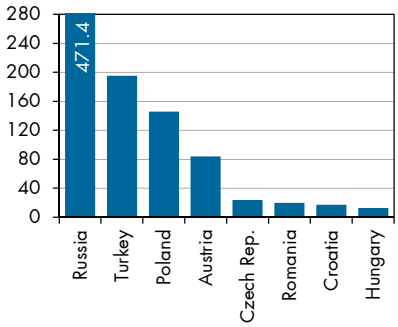
sequently, the central bank's plans to boost the savings ratio are eagerly awaited. These should be presented by the end of November and may have the potential to alleviate the problem with the C/A deficit. If Turkey successfully returns to a path of sustainable economic growth, we see considerable potential for Turkish equities through to the end of the year. With an aggregated price/earnings ratio of 9.6 (2015f), the **ISE National 100** looks quite attractive. **Buy**.

With a gain of around 10% since the beginning of the year, the **Romanian leading index BET** left its Eastern European peers in the dust. The tensions in Ukraine did not have such a strong impact on the performance of the Romanian stock market. As only 2.3% of all Romanian exports go to Russia, the economic ramifications are also limited. Nevertheless, Romania will also not be able to completely disconnect from the events and their effects on the global financial markets. The Prime Minister's announcement of plans to lower the tax on certain construction projects from the current 1.5% to 1% in the foreseeable future would mainly benefit utilities and energy companies based in Romania. After posting the fastest GDP growth in the EU in both of the last two quarters (+5.1% yoy and +3.9% yoy), the rate of growth compared to the second quarter of the previous years was relatively weak, at +1.2%. Nonetheless, thanks to the projected GDP growth of 2.0% in conjunction with more anticipated rate cuts, we expect positive performance for the Romanian equity market at the annual level. **Buy**.

Despite the prolonged recession (GDP dropped by 0.4% yoy in Q1 and by 0.8% in Q2), the **Croatian CROBEX10** has held up well, booking a gain of around 6.4% since the beginning of the year. Nothing has changed in terms of the country's economic imbalances. Despite the economic doldrums, the Croatian government still has to cut its spending. In conjunction with this, we expect a negative development of corporate earnings for the CROBEX10 companies (2014e: -26.1%) and thus a potential increase in the valuation for this already quite expensive looking market (2014e P/E ratio: 31.0). Conditions point to a sub-average performance by the Croatian stock exchange. **Hold**.

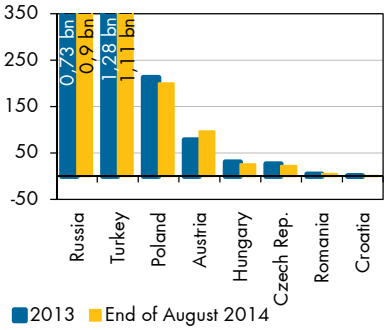
Financial analysts: Aaron Alber, Andreas Schiller, Christoph Vahs

Market capitalisation overview



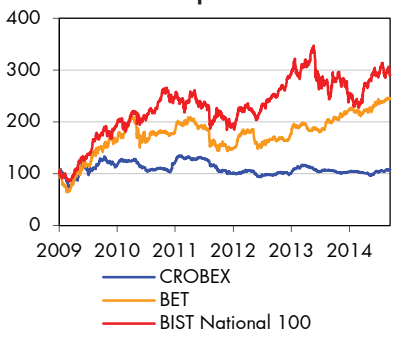
In EUR bn; end of August 2014
Source: FESE, WFE, ZSE, RBI/Raiffeisen RESEARCH

Avg. daily turnover (EUR mn)



Source: FESE, WFE, ZSE, RBI/Raiffeisen RESEARCH

SEE indices in comparison



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Index estimates

	15-Sep[1]	Dec-14	Mar-15	Jun-15	Sep-15	Recommendation
MICEX	1454	1490	1470	1510	1550	**HOLD**
Performance		2.5%	1.1%	3.9%	6.6%	
Range		1250-1600	1250-1600	1350-1650	1400-1700	
BET	7124	7500	7300	7540	7600	**BUY**
Performance		5.3%	2.5%	5.8%	6.7%	
Range		6450-8100	6350-8000	6500-8200	6550-8250	
CROBEX10	1059	1080	1050	1090	1100	**HOLD**
Performance		2.0%	-0.8%	2.9%	3.9%	
Range		930-1160	910-1140	940-1170	950-1180	
BIST Nat. 100	77918	82000	80000	81000	83000	**BUY**
Performance		5.2%	2.7%	4.0%	6.5%	
Range		72000-86000	70000-85000	72000-86000	75000-90000	

In local currency
[1] 11:59 p.m. (CET)
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Stock Markets: having taken a good breather

ATX

.ATX, 16.09.2014, 16:05 (CET)
5y High: 3,000.70, 5y Low: 1,652.79
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

ATX

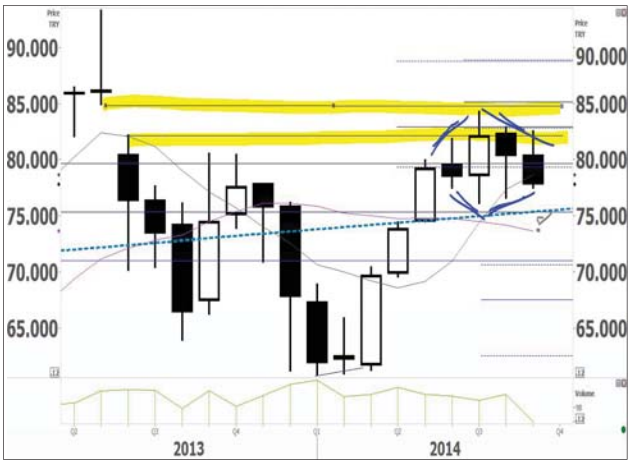
Last: EUR 2,264.09 NEUTRAL

With the „Three-Mountain-Top" evolving our stop at 2,400 has gotten triggered. As its neckline at 2,170 might hold firm another time a temporary recovery to in beyond of 2,320 and towards 2,370 – 2,480 is possible, but considering the pattern's bearish nature a decline to about 1,940 and even 1,800 cannot fully be ruled out.

Position:

Sell	EUR 2,110.00	-> 1,890.00 – 1,800.00
Buy	EUR 2,320.00	-> 2,480.00

BIST 100



.XU100, 16.09.2014, 16:22 (CET)
5y high: 93,178.87, 5y low: 45,230.95
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

BIST 100

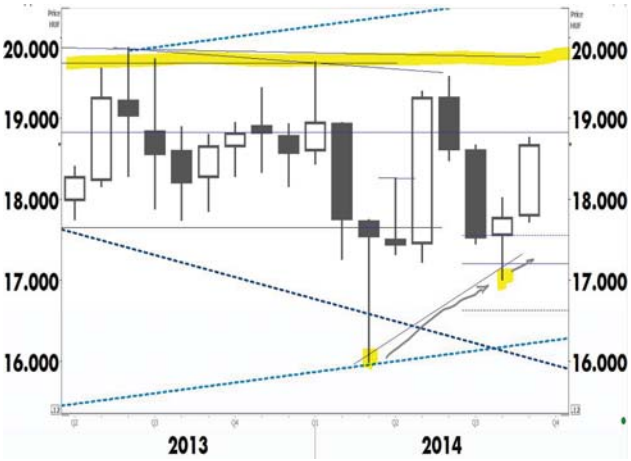
Last: TYR 77,904.31 BULLISH

The recent advance has brought it all back into the old gap – as of June 2013, highlighted. Bullish confirmation at 85,990.01, the gap's top, would indicate another leg up towards the trend's high, e.g. 93,398.33. With regard to the current pattern (Diamond, blue markings) 74,750 should be kept an eye on as a drop to in below of it would trigger another decline towards 70,700 – 67,611.

Position:

Buy	TRY 80,300.00	-> 88,770.00 – 93,398.33
Stop	TRY 76,550.00	

BUX



.BUX, 16.09.2014, 16:30 (CET)
5y high: 25,322.96, 5y low: 14,929.76
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

BUX

Last: HUF 18,640.90 BULLISH

Since beginning of 2012 it is oscillating within a - most likely - bullish pattern's boundaries. The respective buy-signal should get triggered at 19,200, the next Fibonacci-Retracement, resulting in another testing-out of the downward-trend – in effect since 2010 – at 20,910. As long as this break-out that could probably be waited for until mid of 2015 has not been triggered setbacks towards 16,320 cannot fully be ruled out.

Position:

Buy	HUF 19,200.00	-> 20,910.00 – 21,112.00
Stop	HUF 18,150.00	

CROBEX 10

Last: HRK 1,060.22 BULLISH

As with 1,065 our target, a massive kind of resistance, has been hit and one per se bearish pattern is evolving, a Wedge (highlighted), another setback towards the supporting area 1,030 – 1,010 is within the bounds of possibility. As at 1,030, the Fibonacci-zone, has been entered (dotted lines) the bullish rating is kept same as the target 1,126. Bullish confirmation to this upward-trend, at 1,080, is lacking, though.

Position:

Long -> HRK 1.126
Stop HRK 1.048

CROBEX

.CRBEX10, 16.09.2014, 16:17 (CET
5y high: 1,282.84, 5y low: 879.42
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

MICEX

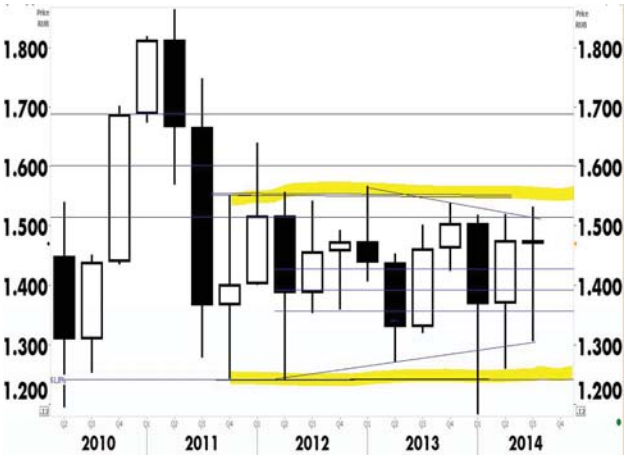
Last: RUB 1,470.75 BULLISH

In the long-run chances on bullish break-out from the consolidation-pattern in effect since 2011 are increasingly gaining ground, i.e. on a move to in beyond of 1,566.42 and 1,632.62 – towards 1,688. A first bullish signal should get triggered at 1,484. As long as the latter signal is lacking 1,425 has to be minded as there a retracement towards 1,307 and 1,110, if not 1,010 could get triggered.

Position:

Buy RUB 1,484.00 -> 1,688.00
Stop RUB 1,425.00

MICEX



.MCX, 16.09.2014, 17:07 (CET)
5y high: 1,859.99, 5y low: 1,165.11
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

WIG 20

Last: PLN 2,481.73 BULLISH

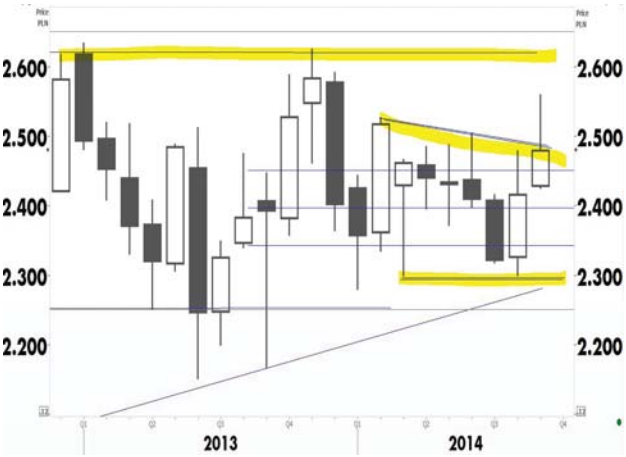
The index is moving both within a per se bullish consolidation pattern, the resistance of which mainly is 2,620, and within the boundaries of a Triangle at the falling-resistance line of which, e.g. at 2,488, it just has failed. Like this bullish confirmation would only be considered reliable once beyond 2,500 indicating another advance towards 2,560 and 2,620. As long as the latter has not been performed it might still retrace to 2,300 again.

Position:

Buy PLN 2,500.00 -> 2,750.00
Stop PLN 2,460.0

Financial analyst: Robert Schittler

WIG 20

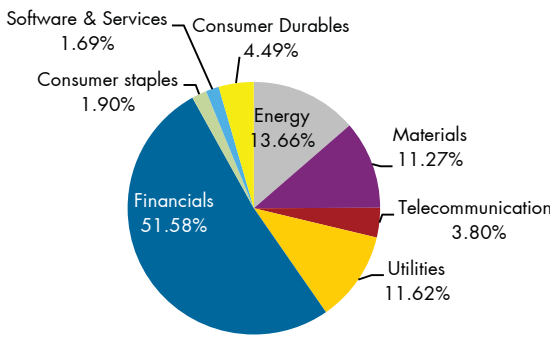


.WIG20, 16.09.2014, 16:47 (CET)
5y high: 2,.932.62, 5y low: 2,035.80
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings in comparison

Sector weightings Poland, WIG 20

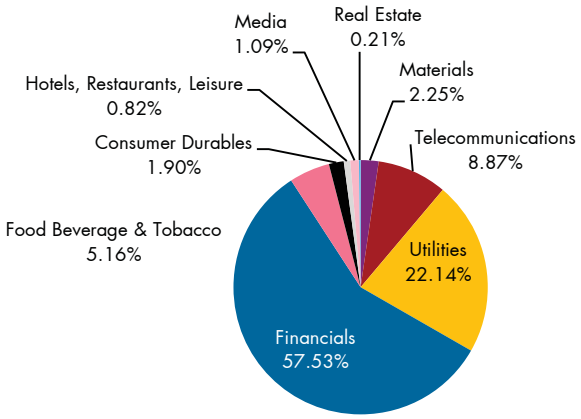
Dom. market cap.: EUR 145.7 bn (Source: FESE; 31-Aug-14)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Czech Republic, PX

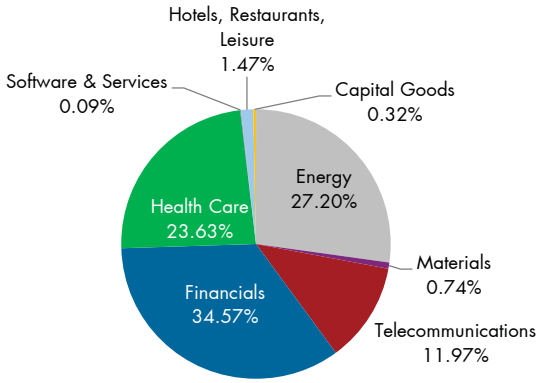
Dom. market cap.: EUR 24 bn (Source: FESE; 31-Aug-14)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Hungary, BUX

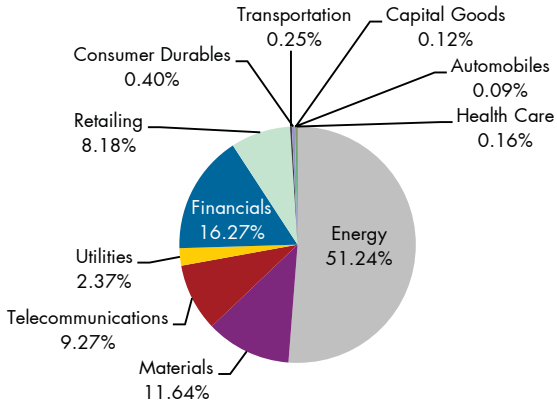
Dom. market cap.: EUR 12.7 bn (Source: FESE; 31-Aug-14)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Russia, MICEX

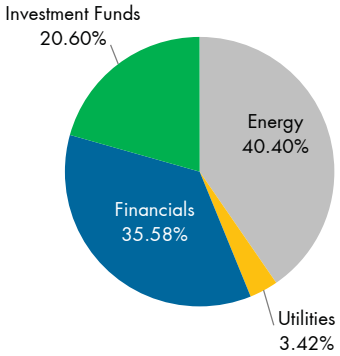
Dom. market cap.: EUR 471.4 bn (Source: WFE; 31-Aug-14)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Romania, BET

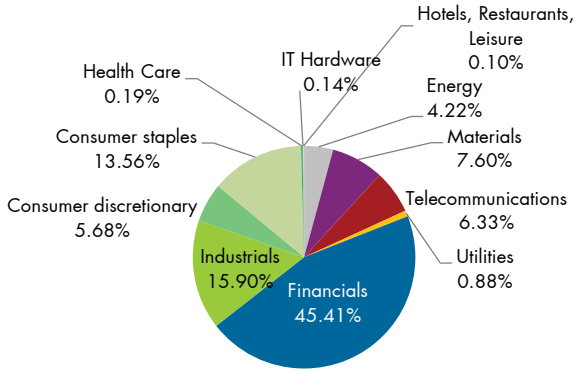
Dom. market cap.: EUR 19,7 bn (Source: FESE; 31-Aug-14)



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Sector weightings Turkey, ISE 100

Dom. market cap.: EUR 195.4 bn (Source: FESE; 31-Aug-14)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Please note the risk notifications and explanations at the end of this document

ECB in the driving seat

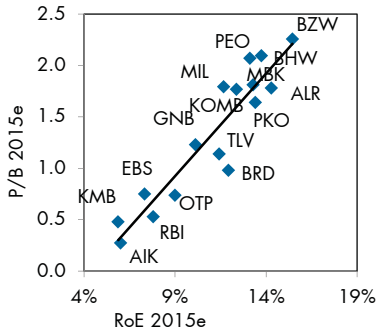
- **Tougher AQR/stress test compared to the 2011 exercise to be cathartic for the banking sector**
- **ECB's credit easing and regional rate cuts likely with negative impact on net interest margins**
- **Banks digesting retail customer compensation in Hungary**

ECB action will probably be the key driver for banking stocks in Q4. Asset quality and stress test results will be published on October 26. We believe that the AQR should not come as a big surprise as H1 results of some banks already digested potential adjustments. Still, as we regard the stress test parameters for most CEE countries as quite harsh, we reckon with a much more pronounced emphasis on Core Tier 1 ratios compared to the EBA stress test in 2011. While we believe that banks in our coverage universe will pass the 5.5% CET 1 hurdle rate of the stress test, we also reckon that - given the stress parameters relative to other Eurozone countries –some CEE-exposed banks might perform relatively weaker versus their European peers, potentially causing the respective local regulator to increase buffer requirements (e.g. in terms of additional tier 1 capital). Still, the AQR/stress test will increase confidence in the European banking system, in our opinion, and might trigger a positive sector performance overall. The ECB's QE/credit easing measures should help bank funding at the periphery but might at the same time put continued pressure on the net interest margins of banks which are already "overliquid".

Concerning Polish banks, reading the latest muted macro data, the market should not be surprised by an additional 25 bps rate cut on top of the already digested 50 bps in Q4 (highest sensitivity assumed at PKO, BHW). Nevertheless, we anticipate the momentum to continue - PL banks have recovered by +13% since the year-low in late July - but this uptrend to cool down on uncertainty related to RU/UA, although local banks are barely exposed to that region. Overall, we point to slightly higher forecasts with sector net profit growth of ~4% qoq (+10% yoy aggregated), though we are quite sanguine that those appear feasible to reach due to healthy loan growth fuelling NII and F&CI, flattish CoR and more visible bond gains that are likely to offset the new interchange fee regime (in place since July 1) and expected pressure on expenses. In such an environment we would prefer PKO (ytd underperformance), ALR (mid-term multiples) and BZW over the rest.
In Hungary Q3 results will be again impacted by the forced bank compensation for unilateral changes and FX margins of around HUF 1,000 bn for the whole sector except for OTP, which already provisioned the full amount in Q2. The key issue for Romanian banks' Q3 figures will be once again the CoR as the Central Bank continues to put pressure on a fast cleaning of the balance sheets. From the banks in our universe, only BRD said explicitly that BNR's recommendations should trigger additional provision charges.

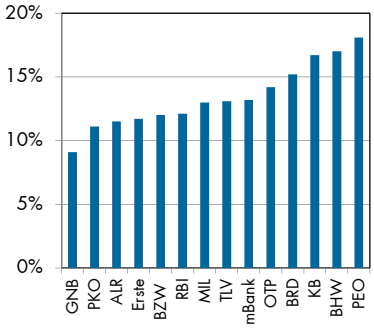
Financial analysts: Jovan Sikimic, Stefan Maxian

Price/Book – RoE regression



Source: Raiffeisen Centrobank estimates

Core Tier 1 ratios*

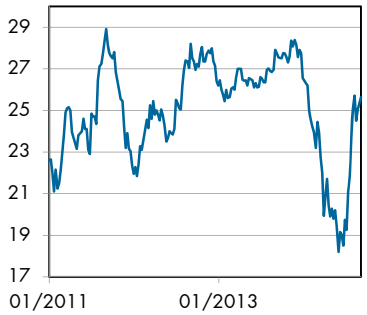


**transitional Basel III*
Source: Raiffeisen Centrobank estimates

Geopolitical risks may be supportive for the gas price

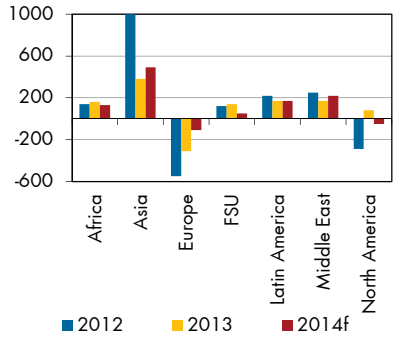
- **Oil price weakness is seen as a temporary phenomenon**
- **Gas price supported by geopolitical factors**
- **We favour OMV, SBO and PKN in CEE and LUKoil in CIS**

TTF 3M gas forward price NL*



** EUR cent per MWh*
Source: Bloomberg

World Total Oil Demand growth*



**kboepd (1,000 barrels of oil equivalent per day)*
Source: IEA Oil Market Report Sep 2014

The Brent oil price fell sharply in August, below USD 100/bbl, weighed down by abundant supplies and indications of slow global economic and oil-demand growth. The International Energy Agency cut its 2014-15e projections for global oil demand growth as a result of a slowdown in demand growth in Q2 14 and a weaker outlook for Europe and China. We believe that the current crude price weakness is a temporary phenomenon. We expect the oil price to strengthen by year-end on the back of the start of the heating season and flexible output of OPEC. With the approaching heating season in Europe and persisting geopolitical risks in the region, the market is looking more into a potential risk of gas supply interruptions from Russia. While we do not believe that the Ukrainian crisis could escalate to a level where the supply of Russian gas would be at risk, we would still expect the market to price-in a geopolitical risk premium, which should lift the gas price in addition to the support from seasonal factors. European refiners are benefiting from relatively stronger refining margins in Q3, partially driven by the weaker oil price and a wider Brent-Ural spread, but also by the start of seasonal maintenance. However, our longer-term view is that European refiners should face challenging times ahead. China's state-dominated refineries are expected to boost potential output by almost 1 mn bbl per day over the next two years, while the Russian refiners are undergoing a massive modernisation aiming at increasing the output of white products. More supply is expected from US-based refineries, which continue to benefit from lower cost of supply (i.e. crude and natural gas).

In the short term, we expect the refiners to surprise the market with strong Q3 results, while the upstream players suffer from a weaker price of crude in Q3. As a short-term play in our CEE universe, we prefer PKN due to seasonally stronger refining margins. In the longer term, we like OMV. Among Russian oils we prefer LUKoil due to strong cash generation and attractive dividends.

We believe that following recent share price correction, SBO should attract investors' attention. With fundamental factors being either priced-in (i.e. capital expenditures of global oilfield service providers, which led to weaker demand for high-precision components) or supportive (i.e. number of rigs, which continues to grow in the North American market; weakening of the Euro), we believe that the recent weakness of SBO's share price is unjustified.

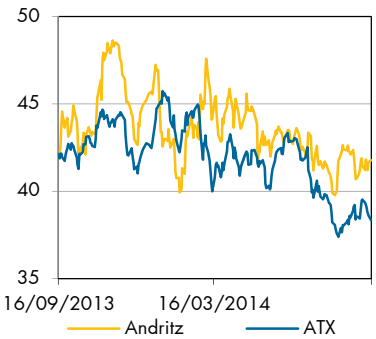
Financial analyst: Oleg Galbur

Andritz: The low point has passed

- **Current share price: EUR 41.77**
- **Target price: EUR 47.00**
- **Market capitalisation: EUR 4,335 mn**

Austrian mechanical engineering group Andritz has managed to gain traction again this year after difficulties in 2013, a year marred by problems with the finalisation of a pulp mill in Uruguay. The business area Hydro posted respectable margins as early as Q2 14, but the lion's share of new large-scale orders is anticipated only in H2. Another major order is expected in Pulp & Paper. This business area might also benefit from additional tenders in Brazil next year. All told, the group's order book of EUR 7.6 bn and confirmed contract awards constitute a strong order base for several years to come. It is also positive that the cyclical business of Schuler AG (in the Metals business area) demonstrates a good performance: the German manufacturer of presses was fully consolidated by Andritz in Q1 14 and has raised its outlook for 2014e both in terms of sales revenue and margins on the back of strong demand from the automotive sector.

Andritz



5y high: EUR 54.94 5y low: EUR 16.165
Source: Bloomberg

As regards the weakish business areas Separation and Metals (with the exception of Schuler) Andritz forecasts a considerable improvement or a turnaround in the remainder of the year. These two segments were still a burden for the overall result in Q1 14, so that this year's EBITA margin target of 7% might not be reached. Nevertheless, we are confident for the next years. Moreover, we believe that the new big alliances in power plant engineering (General Electric and Alstom, Siemens and Mitsubishi) will have an impact only in the mid-term because the competitive pressure will only rise once the new players will have restructured. We expect Andritz to present further efficiency improvement measures on occasion of its Capital Markets Day at the end of September.

The order backlog from North America is growing strongly and currently amounts to some EUR 500 mn. South America and Southeast Asia account for another EUR 1.2 bn. Should the USD appreciate to 1.15 vs. the EUR, the group's net profit would be dragged down by EUR 1.5 mn due to FX hedging.

Financial analyst: Teresa Schinwald

Income statement & balance sheet (IFRS)

in EUR mn	2013	2014e	2015f	2016f
Income Statement				
Consolidated sales	5,711	5,849	6,503	6,578
EBITDA	255	455	552	556
EBIT	90	290	382	416
EBT	80	286	386	425
Net profit b.m.	53	207	278	304
Net profit a.m.	67	204	276	302
Balance sheet				
Total assets	5,571	5,811	6,128	6,192
Shareholders' equity	900	1,052	1,226	1,249
Goodwill	530	530	530	530
NIBD	-780	-1,041	-1,234	-1,278

Source: Andritz , Raiffeisen Centrobank estimates

Key ratios

	2013	2014e	2015f	2016f
EPS	0.64	1.97	2.66	2.91
P/E ratio	70.8	21.2	15.7	14.4
Operating CF per share	2.64	4.48	4.71	4.67
Price cash flow	17.3	9.3	8.9	8.9
Book value per share	8.67	10.14	11.81	12.04
Price book value	5.3	4.1	3.5	3.5
Dividend yield	1.1%	2.4%	3.2%	3.5%
RoE	7.0%	20.9%	24.2%	24.4%
ROCE	4.5%	14.3%	17.9%	19.2%
EV/EBITDA	19.4	9.5	7.7	7.5

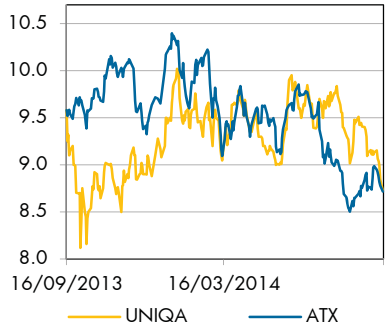
Source: Andritz , Raiffeisen Centrobank estimates

[1] *the indicated price is the last price as available at 6.30 a.m. (CET) on 16 September 2014*

UNIQA: One year after the re-IPO

- **Current share price: EUR 8.73[1]**
- **Target price: EUR 10.80**
- **Market capitalisation: EUR 2,696 mn**

UNIQA



5y high: EUR 16.50 5y low: EUR 8.12
Source: Bloomberg

We confirm our BUY rating for UNIQA after the recent share price weakness. We believe that the envisaged pre-tax profit target of EUR 550 mn for 2015e is out of reach because of the persistently low interest rate environment and due to premium trends that are trailing behind expectations in Eastern Europe. The group should nevertheless be able to post strong earnings growth in the years to come thanks to restructuring measures – albeit at a somewhat less dynamic rate. Following an adjusted pre-tax profit of EUR 295 mn last year, we anticipate an increase to EUR 394 mn this year and expect EUR 473 mn next year. In our opinion, the market already discounts the expectation that the projected pre-tax profit of EUR 550 mn may not be reached in 2015e and we believe that the current share price only prices in low earnings growth. We would like to point out the attractive valuation of the share. Compared to other European insurance companies, UNIQA is currently traded at a discount of some 20% in terms of P/E for 2015e and displays a 25% P/E discount vis-ŕ-vis Vienna Insurance Group. Also the group's P/B multiple of 0.8 is below the peer group median of 1.1. Given the planned payout ratio of 40-50% we calculate an attractive dividend yield of roughly 5%.

First-half results provided clear evidence of the positive restructuring effects. The cost ratio dropped to 21.9% in H1 14 from 23.0% in H1 13. The group's cost savings measures also drove down the Combined Ratio by 0.9%p to 98.3%. The book value per share rose from EUR 9.0 at year-end 2013 to EUR 9.8 as at H1 14 supported by strong comprehensive income. After last year's capital increase, also the Solvency I ratio improved considerably to 302% in H1 14. Premium trends in Eastern Europe developed below expectations and suffered declines particularly in the core countries Czech Republic, Hungary, Poland and Romania. Nevertheless, we reckon with better dynamics next year thanks to positive regulatory changes.

Financial analyst: Bernd Maurer

Income statement & balance sheet (IFRS)

in EUR mn	2013	2014e	2015f	2016f
Income Statement				
Gross written premiums	5,158	5,453	5,617	5,842
Net earned premiums	4,936	5,109	5,318	5,530
Net investment income	780	764	772	773
Insurence benefits net	-3,955	-4,137	-4,273	-4,427
Profit before tax	306	394	473	510
Net profit a.m.	284	290	357	385
Balance sheet				
Total assets	31,069	33,761	35,868	37,581
Shareholders' equity	2,768	3,300	3,487	3,688
Intangible assets	1,463	1,521	1,582	1,614
Investments	18,990	20,990	22,452	23,512

Source: UNIQA, Raiffeisen Centrobank estimates

Key ratios

	2013	2014e	2015f	2016f
Cost ratio net	-24.1%	-22.0%	-21.5%	-21.1%
Benefit ratio group	-80.1%	-81.0%	-80.4%	-80.1%
Combined Ratio	-99.9%	-98.1%	-97.3%	-96.3%
DPS	0.35	0.45	0.50	0.53
Dividend yield	3.8%	5.2%	5.7%	6.1%
EPS adj.	0.88	0.94	1.16	1.25
P/E ratio adj.	10.5	9.3	7.5	7.0
Book value per share	9.0	10.7	11.3	11.9
Price book value	1.0	0.8	0.8	0.7
RoE	8.7%	9.6%	10.5%	10.7%

Source: UNIQA, Raiffeisen Centrobank estimates

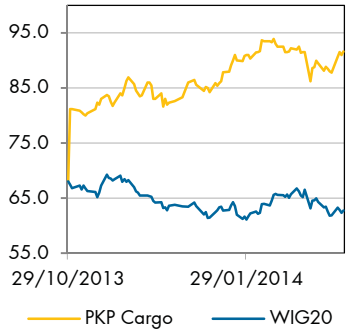
[1] *the indicated price is the last price as available at 6.30 a.m. (CET) on 16 September 2014*

PKP Cargo: Diversified exposure to the economy, cash for M&A

- **Current share price: PLN 76.28** [1]
- **Target price: PLN 90.00**
- **Market capitalisation: EUR 814 mn**

While PKP Cargo was hit by lower revenues from coal transportation it managed to improve its EBITDA margin in Q2 14. Cost cuts in 2014 being a combination of workforce reduction, group reorganisation, renegotiation of contracts and an infrastructure tariff decline indirectly reflecting the EU stance towards improving competitiveness of rail transport should, in our opinion, outweigh the negative effect on the top line. In the following years we no longer expect a significant decrease of coal revenues, while we bet on growth of aggregates transportation driven by EU-funds and finally positive dynamics in intermodal transport once the newly ordered intermodal platforms become an integrated part of PKP Cargo's fleet.

PKP Cargo



5y high: PLN 93.89 5y low: PLN 70.90
Source: Bloomberg

The company seems to be on track to deliver its promises of market expansion. As the competition remains high some of the rivals decided to start selling assets with PKP Cargo being potentially an acquirer of AWT Group, CTL Logistics or Pol-Miedz-Trans. Any of the transactions would result in synergies due to higher scale of activity and may improve the capital structure as PKP Cargo is currently practically debt-free. The high number of acquisition targets may also strengthen the negotiating position of buyers. We see upside in cost restructuring as the reorganisation of repair and modernisation subsidiaries and fleet optimisation may help to reduce opex and capital expenditure related to locomotives and railcars. We also believe in the support from EU authorities to enforce the realisation of its target to shift medium- and long-distance freight transport from road to rail. A fall in personnel costs in H1 14 vs. H1 13 confirms that there are still chances to cut this major fixed cost item since the reduction in headcount exceeds salary inflation. We reckon with EBITDA of PLN 762 mn in 2014e which implies an attractive EV/EBITDA ratio of below 5x and like the dividend yield that approaches 4%. We also see a chance for inclusion into the WIG30 and international indices in the mid-term following the recent increase of free-float, which should support the share's liquidity.

Income statement & balance sheet (IFRS)

in PLN mn	2013	2014e	2015f	2016f
Income Statement				
Consolidated sales	4,554	4,417	4,536	4,678
EBITDA	499	762	793	853
EBIT	110	351	365	413
EBT	89	350	369	420
Net profit b.m.	65	270	287	332
Net profit a.m.	74	267	285	329
Balance sheet				
Total assets	5,744	5,650	5,794	6,008
Shareholders' equity	3,447	3,576	3,726	3,911
Goodwill	3	3	3	3
NIBD	-331	-295	-351	-437

Source: PKP Cargo, Raiffeisen Centrobank estimates

Key ratios

	2013	2014e	2015f	2016f
EPS	1.65	5.96	6.36	7.35
P/E ratio	52.0	12.8	12.0	10.4
Operating CF per share	15.6	15.0	16.3	17.5
Price cash flow	5.5	5.1	4.7	4.4
Book value per share	77.0	79.8	83.2	87.3
Price book value	1.1	1.0	0.9	0.9
Dividend yield	3.6%	3.9%	4.2%	4.9%
RoE	2.2%	7.6%	7.8%	8.6%
ROCE	2.4%	7.0%	7.2%	8.0%
EV/EBITDA	7.1	4.7	4.4	4.0

Source: PKP Cargo, Raiffeisen Centrobank estimates

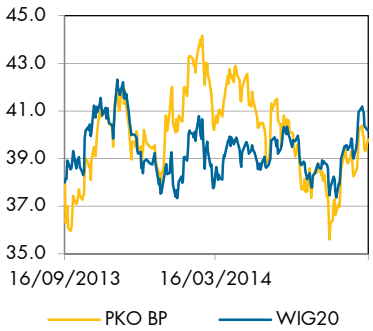
Financial analyst: Dominik Niszcz

[1] *the indicated price is the last price as available at 6.30 a.m. (CET) on 16 September 2014*

PKO BP: Valuation still offers some upside

- **Current share price: PLN 39.80[1]**
- **Target price: PLN 47.00**
- **Market capitalisation: EUR 8,128 mn**

PKO BP



5y high: PLN 46.81 5y low: PLN 29.22
Source: Bloomberg

PKO has been among the best performers since the sector dropped to a year-low in late July and is currently trading at 15.2x P/E 14e or at a 10% discount to peers that has narrowed from the high teens early this summer. Nonetheless, given still quite attractive multiples we remain positive on the performance going forward. To us, PKO is among the major beneficiaries of the local macro data but also looks most exposed to the potential 50 bps rate cut – which appears quite realistic after the last MPC meeting in September and has thus largely been priced-in in the months before. We keep our mid-term dividend pay-out projections at 35% given the deterioration of the CT1 ratio to 11.1% following the Nordea takeover.
We assume a gradual increase of Nordea's contribution to PKO's net profit during 2014-2016 from PLN 3 mn in 2014 to PLN 218 mn in 2016, fully considering integration costs. In the long run, our model is based on an 8% contribution to PKO's net profit which broadly matches management expectations that are backed by full realisation of cost and revenue synergies from 2017.

Income statement & balance sheet (IFRS)

in PLN mn	2013	2014e	2015f	2016f
Income statement				
Net interest income	6,722	7,725	8,265	8,727
Risk provisions	-2,038	-2,083	-1,994	-1,960
Net commission income	3,005	3,006	3,106	3,241
Net trading result	54	95	95	95
Pre-tax profit	4,044	4,055	4,788	5,465
Net profit after minorities	3,229	3,281	3,874	4,422
Balance sheet				
Loans and advances to customers	156,274	189,247	196,979	204,817
Amounts owed to customers	151,904	170,950	177,579	184,713
Shareholders' equity	25,153	27,498	30,224	33,290
Total assets	199,231	240,069	247,796	254,851

Source: PKO BP , Raiffeisen Centrobank estimates

Key ratios

	2013	2014e	2015f	2016f
EPS adjusted	2.27	2.62	3.10	3.54
P/E ratio	15.3	15.2	12.8	11.3
Book value per share	20.12	22.00	24.18	26.63
Price book ratio	1.96	1.81	1.65	1.49
Price tang. book value	2.15	1.95	1.76	1.59
Dividend per share	0.75	0.92	1.08	1.24
Dividend yield (%)	1.9%	2.3%	2.7%	3.1%
RoE adj.	11.5%	12.5%	13.4%	13.9%
Loans/deposits	102.9%	110.7%	110.9%	110.9%
Tier 1 ratio	12.5%	11.3%	11.9%	12.6%

Source: PKO BP, Raiffeisen Centrobank estimates

Our recently revised forecasts (incl. Nordea) anticipate an earnings recovery with a CAGR of 11% (vs. 10% for the sector). In the mid-term we foresee (1) a moderate temporary NIM contraction of 10 bps in 2015, (2) somewhat more muted loan volume growth due to the Nordea acquisition, (3) a gradual decrease of the CoR from 120 bps to <100 bps in 2016 and (4) an improving C/I towards 42% based on good revenue streams incl. a strong non-core component as well as the realisation of first cost synergies from the Nordea platform. Management comments on Q2 14 results: 1) Reported net profit in 2014 should exceed the figure of PLN 3.3 bn achieved in 2013, 2) NIM should be flattish until year-end 2014e, 3) Management was quite confident that the targeted CoR of < 120 bps might be achieved in 2014, 4) Despite a good Q2, quarterly F&CI should contract by a mid-single digit rate on interchange fees, 5) Current capitalisation would enable further dividend payments, but the upside is limited by the nominal level of net profit.

Financial analyst: Jovan Sikimic

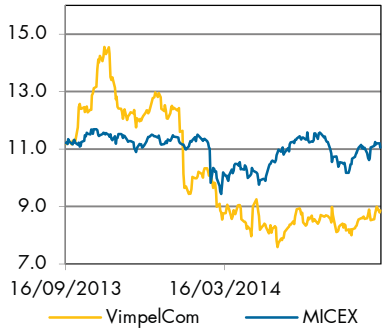
[1] *the indicated price is the last price as available at 6.30 a.m. (CET) on 16 September 2014*

VimpelCom Ltd: A number of potential non-fundamental triggers

- **Current share price: USD 8.38[1]**
- **Target price: USD 11.30**
- **Market capitalisation: EUR 11,308 mn**

After two quarters of weak financial performance and three quarters of share price underperformance, we see a chance for a turnaround of VimpelCom Ltd. Fundamentally, we expect that there may well be an improvement in Q3 14 vs. H1 14, due to the end of the current cycle of mobile termination rate cuts in Italy, operating improvements in Russia and Kazakhstan and 3G launches in Pakistan and Algeria. Moreover, we expect an improvement in cash flow generating potential after refinancing of the expensive Wind debt and settling VimpelCom's dispute with the Algerian government, which could save up to USD 0.5 bn p.a. in interest payments.

VimpelCom



5y high: USD 19.01 5y low: USD 7.23
Source: Bloomberg

Apart from these fundamental improvements, there are plenty of potential non-fundamental triggers as well. The strongest is, probably, the rumoured M&A in Italy between VimpelCom Ltd and Hutchison, although the media claim that there is no consensus between the parties regarding the control of the asset, so the negotiations are likely to be stretched into 2015. Should the deal take place, it could relieve VimpelCom Ltd's balance sheet so that the company would be able to return to high dividend payouts right after the deal. On a separate note, VimpelCom Ltd is also seeking the sale of its mobile towers in Italy, which may bring around EUR 300-500 mn and also improve the debt profile. There are also smaller opportunities to improve the financial profile, for instance, VimpelCom Ltd recently agreed to sell the stake in the non-consolidated loss-making Canadian subsidiary for USD 120 mn.

Finally, there is a chance that VimpelCom Ltd may be included in MSCI indices under the new rules which are currently being discussed by MSCI and investors, and an announcement is expected by late November (however, bearing in mind the low level of VimpelCom Ltd's free float, we do not see such a possibility as a short-term trigger).

Financial analyst: Sergej Libin

Income statement & balance sheet (IFRS)

in USD mn	2013	2014e	2015f	2016f
Income Statement				
Consolidated sales	22,548	20,160	19,927	19,775
EBITDA	6,546	8,433	8,267	8,134
EBIT	1,691	3,767	3,776	3,781
EBT	-679	1,453	1,840	2,049
Net profit b.m.	-1,858	581	1,233	1,414
Net profit a.m.	-1,424	548	1,200	1,381
Balance sheet				
Total assets	49,747	45,605	45,074	44,960
Shareholders' equity	9,733	9,670	10,809	12,130
Goodwill	14,709	14,709	14,709	14,709
NIBD	24,774	24,076	22,596	20,940

Source: VimpelCom, Raiffeisen Centrobank estimates

Key ratios

	2013	2014e	2015f	2016f
EPS	-0.85	0.31	0.69	0.79
P/E ratio	neg.	26.7	12.2	10.6
Operating CF per share	3.77	2.98	3.24	3.28
Price cash flow	3.4	2.8	2.6	2.6
Book value per share	5.57	5.54	6.19	6.94
Price book value	2.3	1.5	1.4	1.2
Dividend yield	2.7%	0.4%	0.4%	9.8%
RoE	-11.6%	5.7%	11.7%	12.0%
ROCE	9.7%	3.9%	7.0%	7.2%
EV/EBITDA	7.1	4.5	4.4	4.2

Source: VimpelCom, Raiffeisen Centrobank estimates

[1] *the indicated price is the last price as available at 6.30 a.m. (CET) on 16 September 2014*

RBI Risk Indicator

Performance since 2009*

	Mean return. annualized	Max drawdown	Sharpe ratio**	Volatility
RBI Risk Indicator strategy	11.6%	-10.1%	1.046	11.1%
Benchmark***	7.2%	-17.5%	0.780	9.1%

Yearly performance*

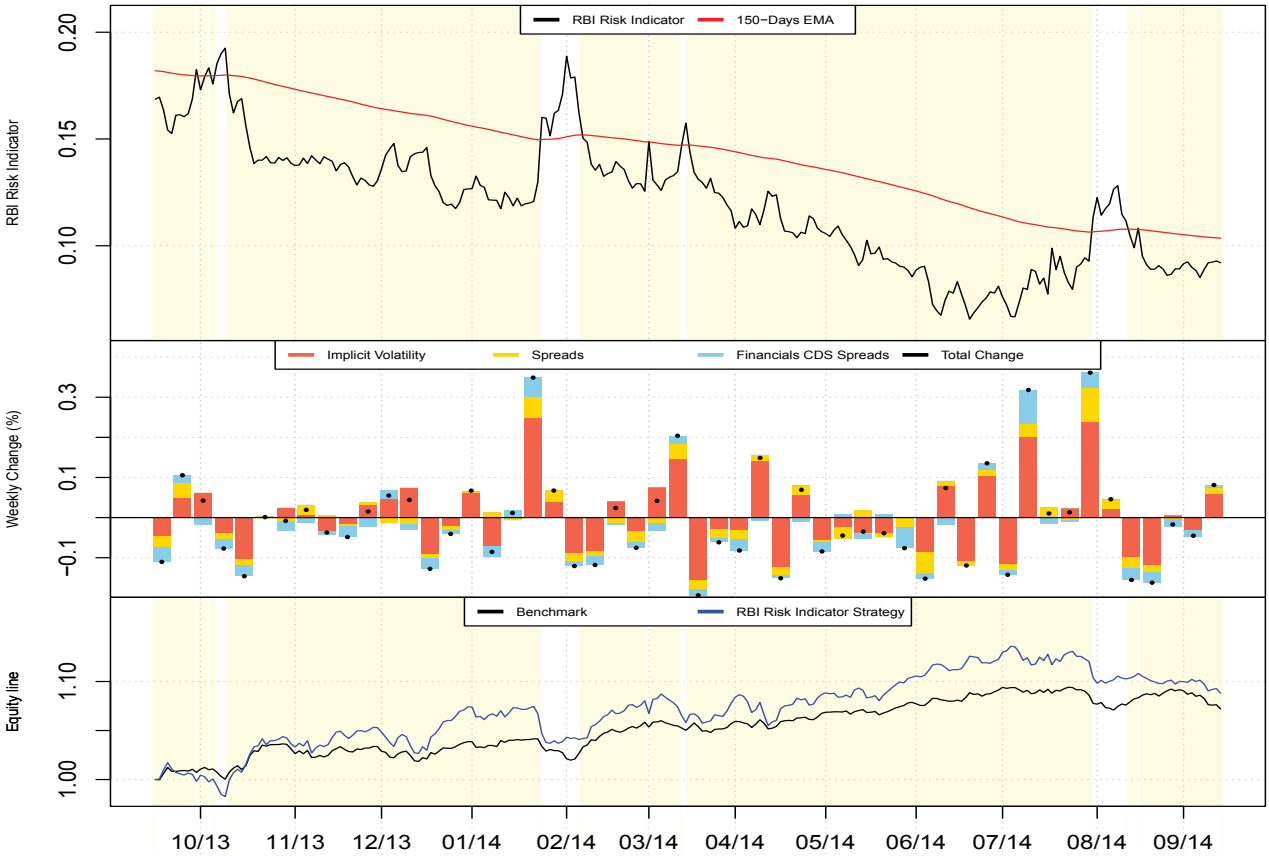
	2009	2010	2011	2012	2013	2014 ytd
RBI Risk Indicator strategy	27.3%	13.5%	-0.6%	13.9%	15.7%	1.3%
Benchmark***	14.6%	8.4%	0.0%	7.1%	9.0%	3.2%

** All performance measures based on signals generated using end of week closing prices (12-Sep) and restructuring on the following Monday (15-Sep). **risk free rate = 0 %; ***composed from MSCI World and JPM Global Bonds*
Source: Thomson Reuters. RBI/Raiffeisen RESEARCH

Description

*The **RBI Risk Indicator** is a quantitative indicator that serves primarily as a short-term decision support instrument for high-risk investments.*
The timing-rule goes as follows: An index sinking below the 150-day moving average (i.e. in the case of a falling level of risk aversion) equals a buy-signal for shares. The opposite case should be interpreted as a sell-signal. Generally speaking, high RBI Risk Indicator values imply a very low risk appetite and high risk premiums.
Please refer to the special publication ‚New Edition of the RBI Risk Indicator', published on 8 April 2013, for a detailed description.

RBI Risk Indicator



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Beta to MSCI World and MSCI EM

Beta: Measures the sensitivity of an equity index to changes of a factor (MSCI World and MSCI EM)
Beta > 1: The equity index shows larger swings then the factor.

Up-Beta: Up-beta > 1: The equtiy index rises more then the factor in positive periods.

Down-Beta: Down-beta > 1: The equtiy index decreases more then the factor in negative periods.

Beta to MSCI World

	Beta	Up-Beta	Down-Beta	Up-Down
EM Europe	1.13	1.24	0.72	0.52
Czech Republic	0.54	0.78	0.85	-0.07
Poland	0.77	0.77	0.72	0.06
Russia	1.18	1.43	0.37	1.06
Hungary	0.64	0.42	0.65	-0.23

Betas to MSCI World; weekly returns of the last 2 years
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Beta to MSCI EM

	Beta	Up-Beta	Down-Beta	Up-Down
EM Europe	1.03	1.20	0.67	0.53
Czech Republic	0.64	0.26	0.97	-0.71
Poland	0.62	0.59	0.91	-0.32
Russia	1.04	1.33	0.31	1.02
Hungary	0.68	0.73	0.23	0.50

Betas to MSCI EM; weekly returns of the last 2 years
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Risk notifications and explanations

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Warnings

- Figures on performance refer to the past. Past performance is not a reliable indicator of the future results and development of a financial instrument, a financial index or a securities service. This is particularly true in cases when the financial instrument, financial index or securities service has been offered for less than 12 months. In particular, this very short comparison period is not a reliable indicator for future results.
- Performance is reduced by commissions, fees and other charges, which depend on the individual circumstances of the investor.
- The return on an investment can rise or fall due to exchange rate fluctuations.
- Forecasts of future performance are based purely on estimates and assumptions. Actual future performance may deviate from the forecast. Consequently, forecasts are not a reliable indicator for the future results and development of a financial instrument, a financial index or a securities service.

A description of the concepts and methods which are used in the preparation of financial analyses can be found at: www.raiffeisenresearch.at/conceptsandmethods

Detailed information on sensitivity analyses (procedure for checking the stability of potential assumptions made in the context of financial analysis) can be found at: www.raiffeisenresearch.at/sensitivityanalysis

The distribution of all recommendations relating to the calendar quarter prior to the publications date, and distribution of recommendations, in the context of which investmentbanking services within the meaning of § 48f (6) Z 6 Stock Exchange Act (BörseG) have been provided in the last 12 months, is available under: www.raiffeisenresearch.at/distributionofrecommendations

Disclosure of circumstances and interests which may jeopardise the objectivity of RBI (as per Sec 48f [5] and [6] of the Stock Exchange Act): www.raiffeisenresearch.at/disclosuresobjectivity

Corporate Credits

Recommendations history for 1 – 4 months

Gazprom		
	Start of coverage	17/04/2008
	Date of recommendation	Recommendation
GAZPRU 5.999% due 2021	15/09/2014	Buy
GAZPRU 3.85% due 2020	06/05/2014	Sell
GAZPRU 6.212% due 2016	31/01/2014	Buy
Halyk Bank		
	Start of coverage	17/04/2008
	Date of recommendation	Recommendation
HSBKKZ 7.25% due 2017	18/11/2013	buy
HSBKKZ 7.25% due 2017	20/09/2013	hold
Promsvyazbank		
	Start of coverage	01/03/2013
	Date of recommendation	Recommendation
PROMBK 8.5% due 2017	09/07/2014	Sell
PROMBK 8.5% due 2017	04/03/2014	Buy
Alfa-Bank		
	Start of coverage	22/04/2009
	Date of recommendation	Recommendation
ALFARU 7.875% due 2017	25/04/2014	Buy
Mobile TeleSystems		
	Start of coverage	25/02/2009
	Date of recommendation	Recommendation
MOBTEL 8.625% due 2020	11/07/2014	Sell
MOBTEL 8.625% due 2020	03/10/2013	Buy

Bonds

Recommendations history: Local currency government bonds (B: buy; H: hold; S: sell; I: no change)*

	CZ			CZK	HU			HUF	PL			PLN	RO			RON	RU**			RUB	TR**			TRY
Date of change	2y	5y	10y		2y	5y	10y		2y	5y	10y		2y	5y	10y		2y	5y	10y		2y	5y	10y	
19/03/2014	Hold	Hold	Hold	Buy	Hold	Hold	Sell	Sell	Hold	Hold	Sell	Buy	Hold	Hold	Hold	Hold	Buy	Buy	Hold	Sell	Buy	Hold	Buy	Hold
02/05/2014	I	I	I	I	I	I	Hold	Hold	Buy	Buy	Buy	I	I	I	I	I	Hold	Hold	I	I	Hold	I	Sell	Sell
14/05/2014	Buy	Buy	Buy	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I
20/06/2014	Hold	Hold	Hold	Hold	I	I	I	Sell	Hold	Hold	Hold	Hold	I	I	I	I	Sell	Sell	Sell	I	I	I	Hold	Buy
06/08/2014	I	I	I	I	I	I	I	Hold	I	I	I	I	I	I	I	I	Hold	Hold	Hold	Hold	I	I	I	I
16/09/2014	I	I	I	I	I	I	I	I	Buy	Buy	Buy	I	Buy	I	Buy	I	Buy	I	I	Buy	Buy	I	I	Hold

** recommendations based on absolute expected performance in LCY*
*** TRY vs. USD; RUB vs. Basket; other FX vs. EUR*
Source: RBI/Raiffeisen RESEARCH

Recommendations history: Sovereign Eurobonds (B: buy; H: hold; S: sell; I: no change)*

	BG		HR		CZ		HU		PL		RO		RU	
Date of change	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD
19/03/2014	Hold	–	Sell	Sell	Hold	Hold	Buy	Hold	Hold	Hold	Hold	Hold	–	Buy
29/04/2014	I	–	I	I	I	I	I	Buy	I	I	Buy	Buy	Sell	Sell
20/06/2014	I	–	I	I	I	I	I	I	Buy	I	Hold	Hold	Hold	Hold
06/08/2014	I	–	I	I	I	I	I	I	Hold	I	Buy	I	I	I
16/09/2014	I	–	I	I	I	I	I	I	Buy	Buy	I	I	I	I

** recommendations based on absolute expected performance, i.e. expected spread change*
Source: RBI/Raiffeisen RESEARCH

Recommendations history: Sovereign Eurobonds (B: buy; H: hold; S: sell; I: no change)*

	RS		SK		SI		TR		UA		BY	
Date of change	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD
19/03/2014	–	Hold	–	–	–	–	Buy	Hold	Sell	Sell	–	Hold
29/04/2014	–	I	–	–	–	–	Hold	I	I	I	–	I
20/06/2014	–	Buy	–	–	–	–	Buy	I	Hold	I	–	I
06/08/2014	–	Hold	–	–	–	–	Hold	I	I	I	–	I
16/09/2014	–	I	–	–	–	–	Buy	Buy	Sell	I	–	I

** recommendations based on absolute expected performance, i.e. expected spread change*
Source: RBI/Raiffeisen RESEARCH

Equities, asset allocation

Recommendations history

Datum	MICEX	WIG 20	PX	BUX	BET	CROBEX 10	BIST 100	ATX
20/06/2013	Sell	Sell	Sell	Sell	Sell	Sell	Buy	Hold
13/08/2013	I	I	I	I	I	I	I	Sell
17/09/2013	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy
19/12/2013	Hold	I	I	I	I	Sell	Hold	I
19/03/2014	I	I	I	Hold	I	I	Buy	I
20/06/2014	I	Hold	Hold	I	I	I	Hold	I

Equities

Financial instruments/ Company	Date of the first publication
MICEX	21/12/2009
WIG 20	01/06/1994
PX	01/06/1994
BUX	01/06/1994
BET	19/12/2006
CROBEX 10	31/07/2009
BIST 100	25/06/2012
ATX	01/04/1993

Equities

Andritz

5y high: EUR 54.94 (11/03/2013), 5y low: EUR 16.165 (05/10/2009)
Start of Coverage: 01/02/2002

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
08.08.2014	Buy	47.00	40.84	15.1%
27.05.2014	Hold	47.00	43.23	8.7%
26.03.2014	Hold	47.00	42.91	9.5%
20.02.2014	Hold	45.00	43.60	3.2%
01.08.2013	Hold	45.00	40.55	11.0%
02.05.2013	Reduce	45.00	49.48	-9.1%
27.03.2013	Hold	52.00	51.15	1.7%
13.02.2013	Hold	50.00	49.48	1.1%
05.11.2012	Hold	50.00	47.84	4.5%

Source: Raiffeisen Centrobank

UNIQA

5y high: EUR 16.5 (07/02/2011), 5y low: EUR 8.12 (02/10/2013)
Start of Coverage: 28/04/2003

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
02.09.2014	Buy	10.80	9.16	18.0%
11.06.2014	Buy	11.10	9.60	15.6%
11.03.2014	Buy	10.90	9.47	15.1%
19.11.2013	Buy	10.75	8.50	26.5%

Source: Raiffeisen Centrobank

PKP Cargo

5y high: PLN 93.89 (09/04/2014), 5y low: PLN 70.9 (24/07/2014)
Start of Coverage: 17/01/2014

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
15.09.2014	Buy	90.00	75.10	19.8%
19.05.2014	Buy	99.00	79.00	25.3%
17.01.2014	Buy	103.00	86.20	19.5%

Source: Raiffeisen Centrobank

PKO BP

5y high: PLN 46.81 (04/11/2010), 5y low: PLN 29.22 (12/09/2011)
Start of Coverage: 10/01/2005

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
11.09.2014	Buy	47.00	39.90	17.8%
10.06.2014	Buy	47.10	40.29	16.9%
06.03.2014	Buy	49.60	42.75	16.0%
09.12.2013	Buy	46.00	39.70	15.9%
23.10.2013	Buy	45.00	39.15	14.9%
24.09.2013	Buy	42.20	35.95	17.4%
10.06.2013	Buy	39.90	35.90	11.1%
22.03.2013	Buy	39.80	34.20	16.4%
25.02.2013	Buy	40.30	34.63	16.4%
03.12.2012	Hold	36.00	34.80	3.4%

Source: Raiffeisen Centrobank

LUKOIL

5y high: RUB 2185 (16/09/2014), 5y low: RUB 1400.93 (25/05/2010)
Start of Coverage: 01/02/2002

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
16.05.2014	Buy	2,499.00	1,890.00	32.2%
13.03.2013	Buy	2,555.00	2,014.90	26.8%

Source: Raiffeisen Centrobank

VimpelCom

5y high: USD 19.01 (19/04/2010), 5y low: USD 7.23 (01/06/2012)
Start of Coverage: 01/02/2002

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
04.09.2014	Buy	11.30	8.75	29.1%
17.03.2014	Hold	10.00	8.76	14.2%
12.02.2014	Hold	11.80	9.98	18.2%
12.11.2013	Hold	14.30	13.14	8.8%
17.07.2013	Buy	13.50	10.40	29.8%
15.02.2013	Buy	15.00	12.19	23.1%
04.10.2012	Hold	13.00	12.26	6.0%

Source: Raiffeisen Centrobank

OMV

5y high: USD 19.01 (19/04/2010), 5y low: USD 7.23 (01/06/2012)
Start of Coverage: 01/02/2002

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
27.08.2014	Buy	35.50	29.28	21.3%
16.05.2014	Buy	37.00	31.09	19.0%
12.02.2014	Buy	39.50	33.06	19.5%
26.11.2013	Hold	40.00	36.10	10.8%
13.11.2013	Buy	42.80	36.00	18.9%
22.08.2013	Buy	42.40	33.45	26.8%
27.05.2013	Hold	39.20	37.48	4.6%
13.03.2013	Hold	35.90	34.40	4.4%
23.11.2012	Buy	31.60	27.32	15.7%

Source: Raiffeisen Centrobank

SBO

5y high: EUR 95.98 (04/07/2014), 5y low: EUR 28.98 (26/11/2009)
Start of Coverage: 01/02/2002

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
17.09.2014	Buy	89.00	74.24	19.9%
25.08.2014	Hold	89.00	80.00	11.3%
28.05.2014	Hold	95.00	90.51	5.0%
14.03.2014	Hold	88.00	80.50	9.3%
17.01.2014	Hold	85.50	81.60	4.8%
23.05.2013	Hold	80.00	77.51	3.2%
26.03.2013	Hold	80.00	79.02	1.2%
20.02.2013	Hold	80.00	75.86	5.5%
13.11.2012	Hold	80.00	74.00	8.1%

Source: Raiffeisen Centrobank

PKN

5y high: PLN 57.9 (11/04/2011), 5y low: PLN 27.35 (19/09/2009)
Start of Coverage: 01/02/2002

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
29.07.2014	Hold	40.00	38.58	3.7%
08.05.2014	Reduce	42.50	43.50	-2.3%
04.02.2014	Hold	41.50	38.80	7.0%
28.10.2013	Reduce	42.50	44.87	-5.3%
29.07.2013	Hold	45.40	43.00	5.6%
06.05.2013	Hold	50.30	47.00	7.0%
13.03.2013	Reduce	50.00	55.40	-9.7%
30.01.2013	Reduce	45.80	50.95	-10.1%
07.12.2012	Reduce	44.50	46.61	-4.5%
31.10.2012	Sell	39.20	43.55	-10.0%

Source: Raiffeisen Centrobank

Alior Bank

5y high: PLN 99.8 (16/10/2013), 5y low: PLN 60.9 (14/12/2012)
Start of Coverage: 23/10/2013

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
02.09.2014	Buy	103.00	76.13	35.3%
10.06.2014	Buy	111.00	84.45	31.4%
09.12.2013	Buy	91.00	76.85	18.4%
23.10.2013	Buy	91.00	81.51	11.6%

Source: Raiffeisen Centrobank

Bank Handlowy

5y high: PLN 128.95 (21/10/2013), 5y low: PLN 58.55 (13/09/2011)
Start of Coverage: 27/02/2014

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
10.06.2014	Hold	128.00	123.50	3.6%
24.03.2014	Buy	123.00	105.50	16.6%
27.02.2014	Hold	120.00	109.55	9.5%

Source: Raiffeisen Centrobank

Getin Noble Bank

5y high: PLN 3.68 (30/04/2014), 5y low: PLN 1.34 (05/06/2012)
Start of Coverage: 23/01/2012

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
20.08.2014	Hold	3.05	2.65	15.1%
10.06.2014	Hold	3.30	3.20	3.1%
26.03.2014	Reduce	2.91	3.15	-7.6%
09.12.2013	Sell	2.47	2.82	-12.4%
23.10.2013	Sell	2.22	2.55	-12.9%
10.06.2013	Buy	2.29	1.88	21.8%
22.02.2013	Buy	2.05	1.76	16.5%
03.12.2012	Buy	1.97	1.64	20.1%

Source: Raiffeisen Centrobank

BZ WBK

5y high: PLN 422 (05/03/2014), 5y low: PLN 142.5 (21/09/2009)
Start of Coverage: 07/03/2005

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
10.06.2014	Buy	464.00	389.90	19.0%
24.03.2014	Hold	428.00	403.30	6.1%
22.01.2014	Hold	398.00	384.00	3.6%
09.12.2013	Hold	397.00	391.00	1.5%
23.10.2013	Hold	383.00	374.20	2.4%
21.08.2013	Hold	340.00	337.00	0.9%
10.06.2013	Hold	310.00	292.00	6.2%
18.01.2013	Hold	278.00	269.00	3.3%

Source: Raiffeisen Centrobank

BRD-GSG

5y high: RON 15.9 (01/04/2010), 5y low: RON 7.125 (07/12/2012)
Start of Coverage: 06/11/2003

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
21.08.2014	Hold	10.10	8.80	14.8%
10.06.2014	Buy	10.40	9.03	15.2%
20.02.2014	Buy	10.80	8.80	22.7%
09.12.2013	Hold	10.10	8.98	12.5%
30.10.2013	Buy	10.35	9.00	15.0%
10.06.2013	Hold	8.24	7.92	4.0%
17.04.2013	Reduce	7.89	8.03	-1.7%
03.12.2012	Reduce	7.09	7.30	-2.9%

Source: Raiffeisen Centrobank

Erste Group

5y high: EUR 39.45 (16/02/2011), 5y low: EUR 10.645 (23/11/2011)
Start of Coverage: 01/02/2002

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
12.08.2014	Hold	21.50	19.29	11.5%
10.06.2014	Hold	28.00	26.14	7.1%
25.03.2014	Buy	27.50	23.64	16.4%
14.01.2014	Hold	31.00	29.00	6.9%
09.12.2013	Buy	28.50	24.70	15.4%
27.06.2013	Buy	24.50	20.75	18.1%
10.06.2013	Hold	26.00	24.42	6.5%
02.04.2013	Buy	26.00	21.73	19.7%
03.12.2012	Hold	24.00	22.62	6.1%

Source: Raiffeisen Centrobank

OTP

5y high: HUF 7400 (25/03/2010), 5y low: HUF 2798 (23/09/2011)
Start of Coverage: 01/02/2002

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
10.06.2014	Hold	4,900.00	4,693.00	4.4%
09.12.2013	Hold	4,900.00	4,255.00	15.2%
10.06.2013	Hold	5,100.00	5,050.00	1.0%
03.12.2012	Hold	4,300.00	4,080.00	5.4%

Source: Raiffeisen Centrobank

Technical analysis

Technical analysis: Historical recommendations

Date	ATX	BELEX 15	BUX	BIST 100	CROBEX 10	MICEX	PX	WIG 20
13/11/2013	NEUTRAL	BEARISH	BULLISH	|	BULLISH	NEUTRAL	BEARISH	|
29/11/2013	|	BULLISH	|	|	|	|	BEARISH	|
06/12/2013	|	|	BULLISH	|	|	|	|	|
18/12/2013	|	|	NEUTRAL	|	|	|	|	|
30/01/2014	BEARISH	BEARISH	BEARISH	|	|	BEARISH	BEARISH	|
12/02/2014	BULLISH	BULLISH	|	|	|	BULLISH	NEUTRAL	BULLISH
20/02/2014	NEUTRAL	NEUTRAL	|	|	BEARISH	NEUTRAL	|	|
27/02/2014	BEARISH	|	|	|	NEUTRAL	|	|	BEARISH
06/03/2014	|	|	|	|	BULLISH	|	|	BULLISH
12/03/2014	BEARISH	|	NEUTRAL	|	NEUTRAL	BEARISH	BEARISH	BEARISH
23/06/2014	BULLISH	|	|	NEUTRAL	BULLISH	BULLISH	|	BULLISH
16/09/2014	NEUTRAL	BULLISH	BULLISH	BULLISH	|	|	|	|

Technical analysis

Financial instruments/ Company	Date of the first publication
ATX	15/04/1995
BELEX 15	01/10/1996
BUX	01/10/1996
CROBEX	18/11/2009
MICEX	02/09/2013
PX	15/03/2002
WIG 20	01/10/1996

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