Central & Eastern European Strategy

2nd quarter 2016

Global headwinds for CEE?

- CE/SEE growth unshaken, Russia recession flattening
- Moderate stress for FX in Q2, bonds well anchored
- CEE Eurobond outlook brightens on ECB/Fed
- Equities supported by loose monetary conditions

Raiffeisen RESEARCH

www.raiffeisenresearch.com

Raiffeisen RESEARCH

Central & Eastern European Strategy

Explanation:
e … estimate (current year)
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
ECB	European Central Bank
FCY	Foreign Currency
FDI	Foreign Direct Investments
FX	Foreign Exchange
FY	Full year
GB	Government bond
GDP	Gross Domestic Product
HCPI	Harmonized Consumer Price Index
LCY	Local Currency
mmav	month moving average
mom	month on month
MP	Monetary policy
MPC	Monetary policy council
O/N	overnight rate
pp	percentage points
PMI	Purchasing Manager Index
PPI	Producer Price Index
QE	Quantitativ easing
qoq	quarter on quarter
qtd	quarter to date
REPO	Repurchase agreement
T/B	Trade Balance
ULC	Unit Labour Costs
UST	US Treasury bond
YC	yield curve
yoy	year on year
ytd	year-to-date

Sovereign Bond markets

CZGB	Czech local currency government bonds
HGB	Hungarian local currency government bonds
POLGB	Polish local currency government bonds
ROMGB	Romanian local currency government bonds
TURKGB	Turkish local currency government bonds

Stock Exchange Indices

ATX	Austrian stock index
BET	Romanian stock index
BIST National 100	Turkish stock index
BUX	Hungarian stock index
CROBEX10	Croatian stock index
PX	Czech stock index
MICEX	Russian stock index
WIG 20	Polish stock index

Fixed income indices

EMBIG	JP Morgan Emerging Markets Bond Index Global
CEMBI	JP Morgan Corporate Emerging Markets Bond 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 (EA)	*Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, 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*
EE	*Eastern Europe (Russia, Ukraine, Belarus)*
CEE	*Central and Eastern Europe (CE + SEE + EE)*

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

CEE: an island of calm in a sea of Emerging Market uncertainty

- **Federal Reserve and ECB open up more leeway for CE**
- **Strong domestic growth supports robust GDP gains**
- **Russia hopes for a turnaround in commodities**

The performance of CEE assets during the first quarter was very strong. In particular, the bond markets and currencies did exceptionally well, even beating our expectations. This positive market trend can be traced back to the supportive influence of the monetary policy decisions in Frankfurt and Washington, as well as the return of EM investors' risk appetite amidst otherwise unsettled conditions around the world. At the same time, political uncertainties have increased since the autumn: Poland's government is being viewed very critically by the EU Commission, political conditions in Slovakia were reshuffled by the elections in March, the head of government in Ukraine is not expected to survive much longer, and in Croatia a government was finally formed, which may push ahead with reforms. There are also stability risks in relation to Russia's tensions with Turkey, as well as its involvement in the Middle East and in Ukraine. For the second quarter, however, we expect that events on the financial markets will be determined once again by economic news and monetary (external) factors.

The economy in Central Europe now moves into the third strong year of recovery. In 2016, the CE region is headed for real GDP growth of just over 3% on average again. In South-eastern Europe, the convergence process is also under way, and GDP growth rates averaging 3% in 2016 are possible there as well. As in the euro area, this performance is propelled by private consumption. Retail sales figures for the start of year point to a continuation of this trend. Private consumption is being driven by the improvement in purchasing power and favourable developments on the labour market. In Czech Republic, Hungary, and Romania, for example, jobless rates between 6.0% and 6.5% are anticipated, thus bringing unemployment down to lower levels than in Austria (6.4%). Even though inflation in Austria is the second-highest in the euro area, private and public consumption there should support maximum GDP growth of 1.4%. By contrast, we have lowered our 2016 GDP projection for Russia and Belarus to -2% for both. However, if the bottoming out for commodities and oil prices seen since January proves to be durable and prices begin to increase in the second half of the year, the recession in Russia should also come to an end. First, however, the budget deficits will have to be remedied. All in all, the growth problems in the other EM countries are hardly having any impact on Eastern Europe, as the growth driver has shifted from external trade to domestic demand. The monetary policy room for manoeuvre opened up by the ECB through to 2017 should also be a beneficial factor.

Impact on currencies

Following the robust appreciation of currencies such as PLN, RUB, and TRY, we project a phase of consolidation in the spring. By end-2016, we then expect the firming trend TO continue again.

Impact on the bond and equity markets

We still see some upside potential for the CEE equity markets in Q2, firmly in single-digit territory. For mid-year, our ATX target is around 2,280 points. With inflation remaining very low and bolstered by supportive monetary policy, the CEE bond markets should be able to maintain their strongly discounted yield levels.

Financial analyst: Peter Brezinschek, RBI Vienna

CEE: Market strategy[1]

	Eurobonds		LCY Bonds		FX
	EUR	USD	2y	10y	–
BG	B	–	–	–	–
HR	H	H	–	–	H
CZ	H	H	H	H	H
HU	H	H	H[2]	B	H
PL	B	B	H	H	S
RO	S	H	H	H	H
RU	H	H	H	H	S
RS	–	H	–	–	H
MK	B	–	–	–	–
KZ	–	B			
TR	B	B	S	S	S
UA	–	H	–	–	H
BY	–	B	–	–	S

[1] **LCY bonds:** *based on absolute performance in LCY*
Eurobonds: *based on expected spread change*
FX *vs. EUR*
Recommendation horizon: **end 2nd quarter 2016**
For recommendation history please see page 62
B: Buy; H: Hold; S: Sell
2) HU: 3y, not 2y tenor
Source: RBI/Raiffeisen RESEARCH

Recommendations[1] – stock markets

Indices	
Buy	BET, BIST National 100, BUX, PX,
Hold	ATX, CROBEX10, MICEX, WIG 30
Sell	-

Equities

CA Immo
Current share price: EUR 16.92
Target price: EUR 19.60
Palfinger
Current share price: EUR 25.00
Target price: EUR 31.50
Magyar Telekom
Current share price: HUF 441.0
Target price: HUF 510.0
Cyfrowy Polsat
Current share price: PLN 24.65
Target price: PLN 27.70
E.On Russia
Current share price: RUB 2.63
Target price: RUB 3.00

Recommendations[1] – debt markets

Corporate bonds		curr.[2]
Buy	Severstal 5.9% due 2022	373

[1] *horizon:* **end 2nd quarter 2016**
[2] *asset swap spreads (bp)*
Source: RBI/Raiffeisen RESEARCH

Real GDP (% yoy)

Countries	2014	2015	Consensus	2016e	Consensus	2017f	Consensus
Poland	3.3	3.6	3.6	3.8	3.5	3.4	3.4
Hungary	3.7	2.9	2.9	2.2	2.4	2.9	2.6
Czech Rep.	2.0	4.3	4.3	2.0	2.5	2.9	2.7
Slovakia	2.5	3.6	3.6	3.5	3.2	3.5	3.3
Slovenia	3.0	2.9	2.9	2.2	2.1	2.1	2.3
CE	**3.0**	**3.6**	3.6	**3.1**	3.1	**3.2**	3.1
Croatia	-0.4	1.6	1.6	1.5	1.5	1.5	1.8
Bulgaria	1.5	3.0	3.0	2.1	2.6	3.0	2.8
Romania	3.0	3.7	3.7	4.0	4.1	3.6	3.4
Serbia	-1.8	0.5	0.7	2.5	1.7	3.0	2.4
Bosnia a. H.	1.1	2.0	2.6	3.0	2.9	3.5	3.0
Albania	2.0	2.7	2.7	3.5	3.3	4.0	3.7
Kosovo	0.9	3.0	2.6	3.0	3.3	3.5	4.1
SEE	**1.6**	**2.8**	2.9	**3.1**	3.1	**3.2**	3.0
Russia	0.7	-3.7	-3.7	-2.0	-1.5	1.5	1.1
Ukraine	-6.6	-9.9	-10.5	1.5	0.1	2.0	2.4
Belarus	1.7	-3.9	-3.9	-2.0	-1.3	1.5	1.7
EE	**0.3**	**-4.1**	-4.1	**-1.8**	-1.4	**1.5**	1.2
Turkey	2.9	3.5	3.6	3.0	3.2	3.5	3.5
Austria	**0.4**	**0.9**	0.9	**1.4**	1.3	**1.4**	1.5
Germany	1.6	1.4	1.7	1.8	1.6	1.8	1.5
Euro area	**0.9**	**1.6**	1.5	**1.4**	1.5	**1.7**	1.6
USA	**2.4**	**2.4**	2.4	**2.5**	2.1	**2.2**	2.4

Source: national sources, RBI/Raiffeisen RESEARCH

Consumer prices (avg, % yoy)

Countries	2014	2015	2016e	2017f
Poland	0.0	-0.9	0.0	1.7
Hungary	-0.2	0.0	0.9	2.8
Czech Rep.	0.4	0.3	0.7	1.7
Slovakia	-0.1	-0.3	-0.1	2.2
Slovenia	0.2	-0.5	0.2	0.9
CE	**0.1**	**-0.5**	**0.3**	**1.9**
Croatia	-0.2	-0.5	0.0	1.5
Bulgaria	-1.4	-0.1	0.8	2.0
Romania	1.1	-0.6	-0.5	2.7
Serbia	2.9	1.4	2.1	2.5
Bosnia a. H.	-0.9	-1.0	0.5	1.5
Albania	1.6	1.8	1.8	2.2
Kosovo	0.4	-0.5	1.0	2.0
SEE	**0.7**	**-0.2**	**0.2**	**2.3**
Russia	7.8	15.6	8.4	7.9
Ukraine	12.1	48.7	14.1	12.9
Belarus	18.1	13.5	16.0	16.0
EE	**8.4**	**17.5**	**9.0**	**8.5**
Turkey	8.9	7.7	8.3	7.9
Austria	**1.5**	**0.8**	**1.4**	**2.0**
Germany	0.8	0.1	0.7	2.7
Euro area	**0.4**	**0.0**	**0.7**	**1.5**
USA	**1.6**	**0.1**	**1.4**	**2.7**

Source: national sources, RBI/Raiffeisen RESEARCH

Current account balance (% of GDP)

Countries	2014	2015	2016e	2017f
Poland	-2.0	-0.2	-0.9	-1.2
Hungary	3.9	3.8	3.7	3.4
Czech Rep.	0.6	1.4	1.5	0.8
Slovakia	0.1	-1.3	-0.9	-0.7
Slovenia	7.0	6.5	5.5	4.8
CE	**-0.1**	**0.9**	**0.5**	**0.1**
Croatia	0.8	4.7	2.0	2.2
Bulgaria	1.2	1.1	1.2	-0.5
Romania	-0.5	-1.1	-2.5	-3.3
Serbia	-6.0	-4.6	-5.2	-5.7
Bosnia a. H.	-7.6	-7.0	-7.6	-8.1
Albania	-12.6	-12.9	-12.8	-13.6
Kosovo	-7.8	-9.4	-7.5	-7.8
SEE	**-1.5**	**-1.2**	**-2.4**	**-3.1**
Russia	3.2	5.0	4.2	4.6
Ukraine	-3.5	-0.2	-3.4	-4.7
Belarus	-6.8	-3.9	-6.4	-6.4
EE	**2.5**	**4.4**	**3.3**	**3.7**
Turkey	-5.4	-4.5	-5.0	-4.9
Austria	**2.0**	**2.8**	**2.6**	**2.4**
Germany	7.3	8.5	7.5	7.5
Euro area	**2.4**	**3.0**	**3.0**	**2.9**
USA	**-2.2**	**-2.7**	**-3.1**	**-2.7**

Source: national sources, RBI/Raiffeisen RESEARCH

General budget balance (% of GDP)

Countries	2014	2015	2016e	2017f
Poland	-3.2	-3.1	-3.2	-3.4
Hungary	-2.5	-2.0	-1.5	-1.0
Czech Rep.	-2.0	-1.3	-0.9	-0.8
Slovakia	-2.9	-2.5	-1.9	-0.9
Slovenia	-4.9	-2.9	-2.7	-2.5
CE	**-2.9**	**-2.5**	**-2.4**	**-2.3**
Croatia	-5.6	-4.5	-3.9	-3.5
Bulgaria	-3.6	-2.9	-2.5	-2.0
Romania	-1.4	-1.2	-3.0	-3.2
Serbia	-6.6	-3.7	-3.7	-3.0
Bosnia a. H.	-2.1	-2.5	-2.0	-1.0
Albania	-5.1	-4.0	-2.5	-1.5
Kosovo	-2.6	-2.2	-2.3	-2.5
SEE	**-3.1**	**-2.4**	**-3.1**	**-2.9**
Russia	-1.0	-3.6	-4.4	-3.3
Ukraine	-4.9	-2.3	-3.5	-3.0
Belarus	1.0	1.5	0.0	0.0
EE	**-1.2**	**-3.3**	**-4.2**	**-3.2**
Turkey	-1.3	-1.2	-1.5	-1.5
Austria	**-2.7**	**-1.2**	**-1.9**	**-1.8**
Germany	0.3	0.5	0.5	0.5
Euro area	**-2.6**	**-2.0**	**-1.8**	**-1.5**
USA	**-2.8**	**-2.4**	**-2.9**	**-2.9**

Source: national sources, RBI/Raiffeisen RESEARCH

Public debt (% of GDP)

Countries	2014	2015	2016e	2017f
Poland	56.0	51.9	52.9	53.6
Hungary	76.2	75.5	74.4	71.5
Czech Rep.	42.6	40.9	39.9	39.3
Slovakia	53.6	53.4	52.8	51.9
Slovenia	80.8	83.5	81.9	81.2
CE	**54.0**	**54.5**	**54.6**	**54.3**
Croatia	85.1	86.0	87.2	87.6
Bulgaria	26.9	26.3	29.5	30.0
Romania	39.8	38.5	39.3	40.0
Serbia	68.8	74.7	78.5	81.3
Bosnia a. H.	42.2	44.6	46.0	45.0
Albania	71.6	73.7	72.5	71.0
Kosovo	10.6	13.0	13.5	13.8
SEE	**48.4**	**48.6**	**50.1**	**50.8**
Russia	11.5	12.7	13.5	14.0
Ukraine	52.9	72.6	81.3	84.9
Belarus	34.1	48.5	52.0	49.0
EE	**14.7**	**17.5**	**18.8**	**19.4**
Turkey	35.0	34.0	32.0	33.0
Austria	**84.2**	**86.2**	**85.7**	**84.9**
Germany	74.9	71.4	68.5	65.6
Euro area	**92.1**	**91.7**	**90.6**	**89.2**
USA	**103.2**	**101.9**	**104.5**	**104.1**

Source: national sources, RBI/Raiffeisen RESEARCH

Gross foreign debt (% of GDP)

Countries	2014	2015	2016e	2017f
Poland	71.1	70.1	72.9	73.1
Hungary	113.9	106.0	98.6	89.5
Czech Rep.	66.6	70.6	74.3	76.4
Slovakia	89.7	86.7	85.4	82.6
Slovenia	124.1	114.8	110.0	104.1
CE	**80.2**	**78.7**	**79.6**	**78.3**
Croatia	108.5	108.2	108.0	108.5
Bulgaria	93.1	77.2	76.9	75.1
Romania	63.1	56.9	55.2	53.6
Serbia	78.6	81.6	80.6	79.4
Bosnia a. H.	51.9	54.6	55.1	54.9
Albania	67.7	68.9	67.5	64.7
Kosovo	31.2	33.0	33.2	34.4
SEE	**74.7**	**69.5**	**68.2**	**66.5**
Russia	29.5	39.3	40.2	32.2
Ukraine	95.2	131.5	142.9	142.5
Belarus	52.6	70.3	84.8	79.7
EE	**34.2**	**46.1**	**48.5**	**40.4**
Turkey	50.3	59.9	60.6	56.6
Austria	**n.v.**	**n.v.**	**n.v.**	**n.v.**
Germany	n.v.	n.v.	n.v.	n.v.
Euro area	**119.2**	**121.5**	**n.v.**	**n.v.**
USA	**n.v.**	**n.v.**	**n.v.**	**n.v.**

Source: national sources, RBI/Raiffeisen RESEARCH

Exchange rate EUR/LCY (avg)

Countries	2014	2015	2016e	2017f
Poland	4.19	4.18	4.32	4.24
Hungary	309	310	314	317
Czech Rep.	27.5	27.3	27.0	26.4
Slovakia	euro	euro	euro	euro
Slovenia	euro	euro	euro	euro
Croatia	7.63	7.61	7.59	7.62
Bulgaria	1.96	1.96	1.96	1.96
Romania	4.44	4.45	4.45	4.35
Serbia	117	121	123	125
Bosnia a. H.	1.96	1.96	1.96	1.96
Albania	140	140	138	138
Kosovo	euro	euro	euro	euro
Russia	51.0	68.0	77.8	70.0
Ukraine	15.9	24.3	29.5	31.1
Belarus	13597	17706	25627	28090
Turkey	2.90	3.02	3.22	3.17
Austria	**euro**	**euro**	**euro**	**euro**
Germany	euro	euro	euro	euro
Euro area	**euro**	**euro**	**euro**	**euro**
USA	**1.33**	**1.11**	**1.10**	**1.06**

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Ratings[1]

Countries	S&P	Moody's	Fitch
Poland	BBB+	A2	A-
Hungary	BB+	Ba1	BB+
Czech Rep.	AA-	A1	A+
Slovakia	A+	A2	A+
Slovenia	A-	Baa3	BBB+
Croatia	BB	Ba2	BB
Bulgaria	BB+	Baa2	BBB-
Romania	BBB-	Baa3	BBB-
Serbia	BB-	B1	B+
Bosnia a. H.	B	B3	NR
Albania	B+	B1	NR
Kosovo	NR	NR	NR
Russia	BB+	Ba1	BBB-
Ukraine	B-	Caa3	CCC
Belarus	B-	Caa1	B-
Turkey	BB+	Baa3	BBB-
Austria	**AA+**	**Aaa**	**AA+**
Germany	AAA	Aaa	AAA
USA	AA+	Aaa	AAA

[1] *for FCY, long-term debt; NR … not rated*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

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

Exchange rate forecast

Countries	29-Mar[1]	Jun-16	Sep-16	Mar-17
vs EUR				
Poland	4.25	4.35	4.30	4.25
Hungary	314.21	315.0	315.0	315.0
Czech R.	27.07	27.0	27.0	27.0
Croatia	7.52	7.55	7.60	7.62
Romania	4.46	4.45	4.40	4.38
Serbia	122.86	122.0	124.0	126.0
Albania	138.57	138.0	138.5	137.0
vs USD				
Russia	69.0	75.0	65.0	67.0
Ukraine	26.35	27.00	27.00	29.00
Belarus	20310	24500	25000	26000
Turkey	2.86	2.95	2.90	3.00
EUR/USD	1.12	1.10	1.10	1.01

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

Key interest rate forecast

Countries	29-Mar[1]	Jun-16	Sep-16	Mar-17
Poland	1.50	1.50	1.50	1.50
Hungary	1.20	1.00	1.00	1.00
Czech R.	0.05	0.05	0.05	0.05
Romania	1.75	1.75	1.75	1.75
Russia	11.00	11.00	10.50	9.00
Turkey	7.50	8.50	9.00	8.25
Euro area	0.00	0.00	0.00	0.00
USA	0.50	0.75	0.75	1.25

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

3m money market rate forecast

Countries	29-Mar[1]	Jun-16	Sep-16	Mar-17
Poland	1.67	1.70	1.70	1.70
Hungary	1.20	1.05	1.05	1.10
Czech R.	0.29	0.30	0.30	0.30
Croatia	0.83	0.85	0.90	1.00
Romania	0.80	1.10	1.40	1.75
Russia	11.76	11.70	11.30	9.80
Turkey	11.35	11.00	10.50	9.50
Euro area	-0.24	-0.25	-0.25	-0.25
USA	0.63	0.75	0.80	1.35

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

2y LCY yield forecast

Countries	29-Mar[1]	Jun-16	Sep-16	Mar-17
Poland	1.46	1.5	1.6	1.8
Hungary*	1.62	1.7	1.8	1.9
Czech R.	0.03	-0.3	-0.3	-0.4
Croatia*	1.87	2.5	2.5	2.6
Romania*	1.78	2.0	2.1	2.5
Russia	9.36	9.5	9.3	8.6
Turkey	9.89	10.5	10.0	9.0
Austria	-0.43	-0.4	-0.4	-0.4
Germany	-0.48	-0.5	-0.5	-0.5
USA	0.80	1.0	1.0	1.5

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

10y LCY yield forecast

Countries	29-Mar[1]	Jun-16	Sep-16	Mar-17
Poland	2.85	2.9	3.0	3.3
Hungary	3.01	3.1	3.2	3.4
Czech R.	0.45	0.3	0.6	0.9
Croatia	3.75	3.9	3.9	4.0
Romania	3.42	3.5	3.6	3.9
Russia	9.27	9.2	9.0	8.5
Turkey	9.88	10.7	10.3	9.5
Austria	0.36	0.5	0.6	1.0
Germany	0.14	0.3	0.5	0.8
USA	1.81	2.2	2.3	2.6

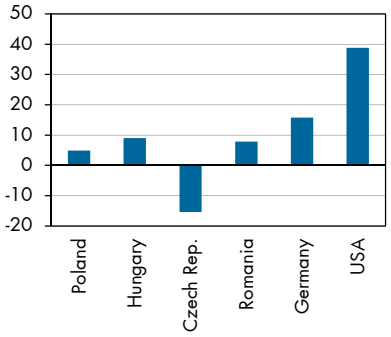
[1] 5:00 p.m. (CET)
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Spreads 10y LCY bonds over Bund

Countries	29-Mar[1]	Jun-16	Sep-16	Mar-17
Poland	271	260	250	250
Hungary	287	280	270	260
Czech R.	31	0	10	10
Croatia	361	360	340	320
Romania	328	320	310	310
Russia	913	890	850	770
Turkey	974	1040	980	870
Austria	22	15	10	15
USA	167	190	180	180

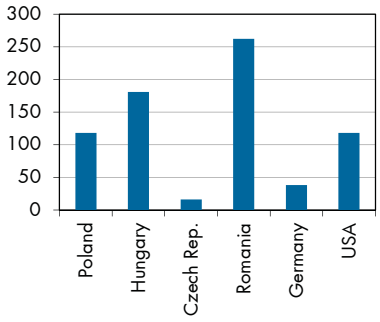
[1] 5:00 p.m. (CET); all values in bp
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Expected 10y LCY yield change



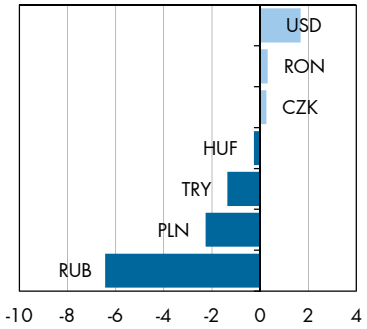
bp-change of 10y gov. bond yield in next 3 months
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Yield curve slope



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

LCY changes vs EUR (% qoq)[1]



[1] forecasts for 30 Jun-2016 in comparison to 29 Mar-2016
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Stock market indicators

	Earnings growth		Price/earnings ratio	
	16e	17f	16e	17f
ATX	-11.7%	21.0%	12.8	10.6
WIG 30	354.2%	6.9%	13.4	12.6
BUX	n.a.	13.7%	12.8	11.2
PX	2.0%	21.6%	13.1	10.8
MICEX	-15.5%	39.7%	7.7	5.5
BET*	41.8%	12.4%	11.2	9.9
CROBEX10	-56.5%	1.0%	16.1	16.0
BIST Nat. 100	11.1%	16.2%	9.3	8.0

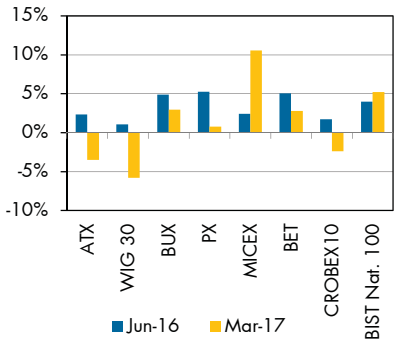
* Romania (BET) excl. Fondul Proprietatea
Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

Stock market forecasts

	Index estimates			
	29-Mar[1]	Jun-16	Dec-16	Mar-17
ATX	2,228	2,280	2,250	2,150
WIG 30	2,177	2,200	2,200	2,050
BUX	25,737	27,000	27,000	26,500
PX	893	940	930	900
MICEX	1,845	1,890	2,020	2,040
BET	6,712	7,050	7,000	6,900
CROBEX10	973	990	980	950
BIST Nat. 100	81,734	85,000	84,000	86,000

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

Expected index performance



Source: RBI/Raiffeisen RESEARCH

Volatile first quarter

- **Low oil prices unsettling markets**
- **Stock markets recovered towards the end of Q1**
- **Strong absolute performance of RBI portfolio ytd**

Sum of last quarter[1]

RBI portfolio (in EUR)	4.11%
Benchmark (in EUR)	4.38%
RBI outperformance (in EUR)	-0.26 pp
by weighting of equities vs bonds	-0.08 pp
regional equity weightings	-0.10 pp
weighting of EB vs LCY bonds	-0.05 pp
country weightings of LCY bonds	-0.03 pp
country weightings of EB EUR	0.00 pp
country weightings of EB USD	0.00 pp
joint effects / duration	0.01 pp

1 31 December 2015 - 29 March 2016
EB...Eurobonds
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Period 1: 31 Dec 2015 – 29 Jan 2016

RBI portfolio (in EUR)	-1.92%
Benchmark (in EUR)	-1.85%
RBI outperformance (in EUR)	-0.08 pp
by weighting of equities vs bonds	-0.08 pp
regional equity weightings	0.00 pp
weighting of EB vs LCY bonds	0.00 pp
country weightings of LCY bonds	0.00 pp
country weightings of EB EUR	0.00 pp
country weightings of EB USD	0.00 pp
joint effects / duration	0.00 pp

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

Period 2: 29 Jan 2016 – 26 Feb 2016

RBI portfolio (in EUR)	1.01%
Benchmark (in EUR)	1.11%
RBI outperformance (in EUR)	-0.10 pp
by weighting of equities vs bonds	0.00 pp
regional equity weightings	-0.08 pp
weighting of EB vs LCY bonds	-0.01 pp
country weightings of LCY bonds	-0.01 pp
country weightings of EB EUR	0.00 pp
country weightings of EB USD	0.00 pp
joint effects / duration	0.00 pp

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

Period 3: 26 Feb 2016 – 29 Mar 2016

RBI portfolio (in EUR)	5.10%
Benchmark (in EUR)	5.18%
RBI outperformance (in EUR)	-0.08 pp
by weighting of equities vs bonds	0.00 pp
regional equity weightings	-0.03 pp
weighting of EB vs LCY bonds	-0.03 pp
country weightings of LCY bonds	-0.02 pp
country weightings of EB EUR	0.00 pp
country weightings of EB USD	0.00 pp
joint effects / duration	0.00 pp

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

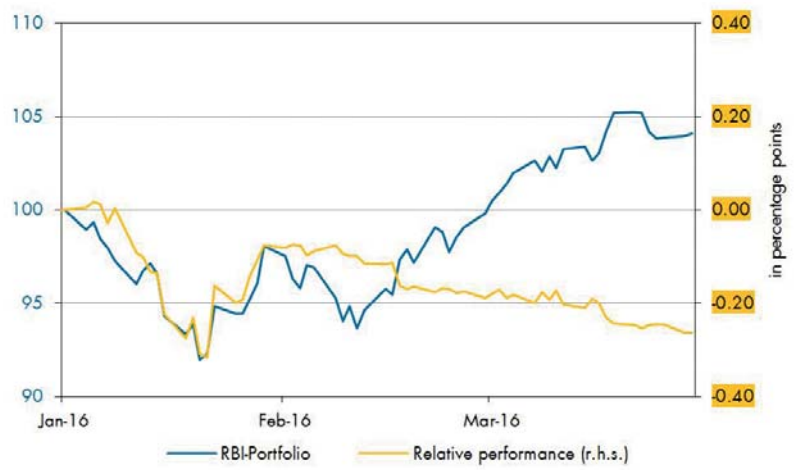
The first quarter of 2016 was marked by strong uncertainty due to low commodity prices – particularly oil prices – and global growth concerns with regard to both the emerging markets and the established markets. **After a correction** at the beginning of the quarter, the **stock markets recovered again** temporarily. Our CEE portfolio generated a positive performance of 4.11%, which is, however, 26 basis points (bp) below the benchmark.

Within the CEE portfolio, we decided to overweight equities by 3 percentage points in the first period on the basis of a more attractive risk-return profile in comparison to bonds. From period 2 on, we remained neutral between equities and bonds due to global growth concerns. Within the **equities segment**, we favoured the Czech Republic, Hungary, Romania and Russia in period 1, while underweighting Poland and Turkey due to political uncertainties. For the remainder of the quarter, only the Czech Republic and Hungary were overweighted, financed by Poland. However, the strong economic momentum in the Czech Republic did not carry over to the stock market as expected, which led to an overall underperformance of 8bp.

In the **local currency bond segment** (-3bp), we underweighted Turkey in favour of Hungary, Romania and Russia in period 1. In periods 2 and 3, we changed this so that only Hungary and Romania were overweighted versus Poland. However, political uncertainties did not have a major impact on the prices of Polish government bonds as expected.

Financial analyst: Stefan Theußl, RBI Vienna

Performance 2016



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

CEE portfolio

	2013	2014	2015	ytd
Benchmark	-2.54%	-8.11%	2.42%	4.38%
Portfolio	-2.41%	-8.23%	1.78%	4.11%
Relative Performance	0.12 pp	-0.12 pp	-0.64 pp	-0.26 pp

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Equities moderately overweighted

- **Positive trend for equities may continue**
- **Expansive monetary policy by the ECB should also support CEE asset prices**
- **Oil price and geopolitical conflicts are still the main risk factors**

The stronger-than-expected **expansion of the ECB's already very accommodative monetary policy** has several implications for our investment strategy. First, interest rate conditions in the euro area will remain extremely low, meaning that CEE local currency bonds look attractive, thanks to their premiums over German government bonds. Second, risky assets will continue to enjoy strong support, due to the hunt for yields. And third, this additional stimulus (although it is highly controversial) should help to solidify the already good economic performance of Central Europe (CE) and South-Eastern Europe (SEE), thanks to the close ties to countries in the euro area.

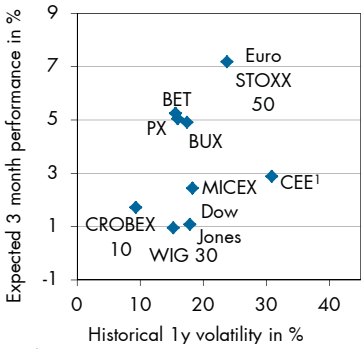
The **slack economic performance in Eastern Europe** continues to generate some headwinds, and the Russia/Ukraine conflict remains a problem for this region. While Russia is still grappling with the low oil price, Ukraine's economy may finally pass through the bottom of the trough this year.

Taking a one-quarter view, the earnings prospects for equities just barely have the upper hand, after taking into account the risks (price volatility, monetary policy, oil price). While we project flat to rising yields for 10-year government bonds, we forecast the most important equity indices to be between 4% and 5.2% higher in local currency terms (exception: Russia). Accordingly, we **overweight the equity segment by 3 percentage points (pp) versus bonds (-3pp)** in our portfolio.

All in all, however, it should be noted that **asset prices do not necessarily currently reflect the risks in full**, due to the extremely low interest rate policies. Although the prospects of the rate hike cycle in the USA (which has now been suspended for the time being) has had a positive/calming effect on volatility in both segments, another interest rate move by the Fed could trigger a sharp increase in volatility again this year, in particular for the currencies.

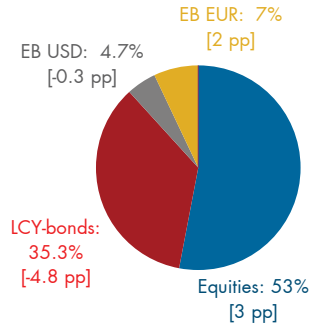
Financial analyst: Stefan Theußl, RBI Vienna

Risk-return (%)



Local currency
1 MSCI EM Eastern Europe in euro
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

CEE portfolio weightings Q2 2016



LCY…local currency, EB … Eurobonds
[-] , [+] = Over-/underweight versus benchmark
[0] = No over/-underweight versus benchmark
Source: RBI/Raiffeisen RESEARCH

Historical volatility & performance (%)

	Equities[1]						Bonds					
	Volatility[2]		Performance ytd		Performance 5y[3]		Volatility[2]		Performance ytd		Performance 5y[3]	
Countries	EUR	LCY	EUR	LCY	EUR	LCY	EUR	LCY	EUR	LCY	EUR	LCY
Czech Republic	23.7	23.6	-0.7	-0.5	-10.2	-8.4	1.5	1.3	0.0	0.1	4.0	6.0
Hungary	24.3	21.7	8.9	8.2	-4.4	-1.3	7.1	2.3	4.5	3.9	6.1	9.6
Poland	25.5	21.6	6.0	5.0	-7.4	-6.3	8.6	2.4	2.5	1.6	5.8	7.2
Romania	23.1	22.6	0.9	-0.4	3.6	5.3	2.0	0.1	1.3	0.1	1.1	2.8
Russia	46.3	25.1	7.6	5.9	-12.0	-2.9	36.3	7.3	7.0	4.1	-6.3	6.9
Turkey	26.6	19.7	13.6	14.7	-2.1	5.5	13.7	4.3	4.5	5.5	0.1	7.9
Croatia	9.7	9.7	2.5	0.9	-8.1	-7.7	2.2	2.8	3.2	1.6	6.4	6.8
CEE	27.2	-	4.4	-	-	-	5.8	-	2.7	-	-	-

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

Major differences in the performance of CEE bonds

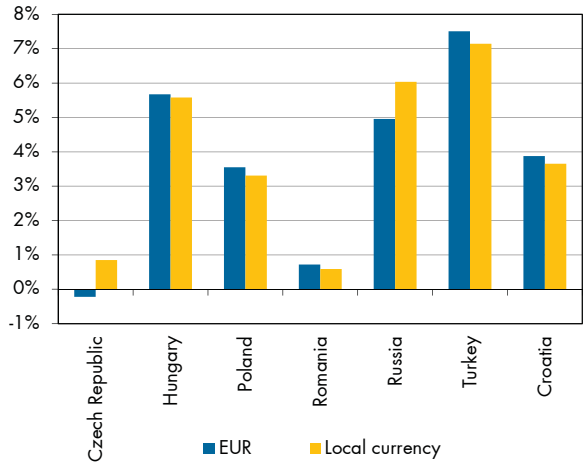
- **EUR Eurobonds more attractive than local currency bonds**
- **RUB expected to weaken**
- **Romanian and Czech government bonds overweighted versus Russian govies**

Portfolio weightings: bonds*

	Portfolio	Benchmark	Difference
EB USD	10.0%	10.0%	0.0%
EB EUR	15.0%	10.0%	5.0%
LCY	75.0%	80.0%	-5.0%
Czech Republic	21.0%	20.0%	1.0%
Hungary	20.0%	20.0%	0.0%
Poland	45.0%	45.0%	0.0%
Romania	6.0%	5.0%	1.0%
Russia	3.0%	5.0%	-2.0%
Turkey	5.0%	5.0%	0.0%
Croatia	0.0%	0.0%	0.0%

** Share in percentage points*
Source: RBI/Raiffeisen RESEARCH

Historical relative performance*



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

The more positive sentiment on the international financial markets was bolstered by several factors in recent weeks. The main reasons for the more positive environment were the reduction in the deposit rate and the expansion of the bond purchase programme by the ECB, coupled with the slower-than-expected path of rate hikes by the US Fed and an increase in the oil price by end-March to USD 39/bbl. Both the currencies and government bonds of the CEE region were able to profit from this. The **recent come-back by CEE currencies** versus EUR **is probably over** for now, however, and for most of the CEE currencies we expect mild depreciation over the second quarter, mainly driven by local factors.

With an eye to the benign market sentiment on the one hand and the weaker currencies on the other, **we underweight local currency bonds versus EUR-denominated Eurobonds by 5 basis points**. The anticipated temporary decline in the oil price in Q2 2016 should trigger depreciation of the Russian rouble versus both the euro and the US dollar. Although yields should remain stable, all in all the outlook for performance is quite negative, and **consequently we underweight Russian government bonds by two basis points (bp)**. In contrast to this, the Czech koruna should remain stable versus the euro in the weeks ahead. There would be pressure on CZK to appreciate, if it weren't for the exchange rate floor at EUR/CZK 27. Yields on Czech government bonds should also make positive contributions to performance. In reflection of this, **Czech government bonds are overweighted by one basis point**. The situation is similar in Romania, where we anticipate a mild increase in yields and modest appreciation of the currency. Accordingly, **Romanian bonds are also overweighted in the portfolio by one basis compared to the benchmark.**

Financial analyst: Nina Neubauer-Kukić, CIIA, RBI Vienna

Expected bond market performance (%)

	3m		6m		9m		12m	
Countries	**EUR**	**LCY**	**EUR**	**LCY**	**EUR**	**LCY**	**EUR**	**LCY**
Czech Republic	1.6	1.4	-0.4	-0.7	0.1	-0.2	2.0	-2.2
Hungary	-1.4	-1.0	-1.6	-1.2	-0.9	-0.5	-5.2	-1.6
Poland	-2.3	0.1	-1.4	-0.2	-0.7	0.5	-1.6	-1.5
Romania	0.5	0.1	1.9	0.5	3.0	1.6	2.5	0.4
Russia	-11.8	2.3	-1.2	5.8	0.8	8.0	32.1	13.5
Turkey	-3.4	-2.5	3.3	2.5	5.8	5.1	18.9	12.5

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

Following the trend, but prudently into the spring

- **Uptrend in Hungary should continue to have good support**
- **Turkey profiting from low oil price**
- **Biggest uncertainties in Poland and Russia**

The markets in Eastern Europe have done very well recently, in the wake of the positive performance on the developed exchanges fostered by the extremely expansive monetary policy of the ECB. Although many of the exchanges have come a long ways already, we project that for the most part the **positive trend will continue over the short term** at least.

With regard to the **Hungarian stock market index**, in comparative terms we expect the **highest risk-adjusted yield** and thus overweight this market the strongest, by 2 percentage points (pp). The solid economic performance of Hungary is a beneficial factor for good performance by this index going forward. Moreover, we expect a rate cut, which should also have a supportive effect.

While **Turkey** also shows a high expected yield of about 4% in local currency terms, we only opt to **moderately overweight this market by 1pp** risk adjusted, in light of the volatility and exposure to geopolitical conflicts. The BIST index should also profit from the relatively low level of oil prices.

By contrast, our **weighting on Russia is below benchmark**. The sustained recovery in the price of oil since mid-January and the related appreciation of the rouble have fuelled robust gains for the MICEX. Nevertheless, we do not see much room left on the upside over a one-quarter perspective. In particular, this index does not look so attractive in terms of the risk-return profile. There continues to be a risk of yet another correction in the oil price. On the whole, our strongest underweighting of 2pp is on Russia. In Poland, the risks (political uncertainty, conversion of CHF loans, etc.) are roughly balanced with the opportunities, taking into consideration a weaker zloty. For this market, we have an underweighting of 1pp.

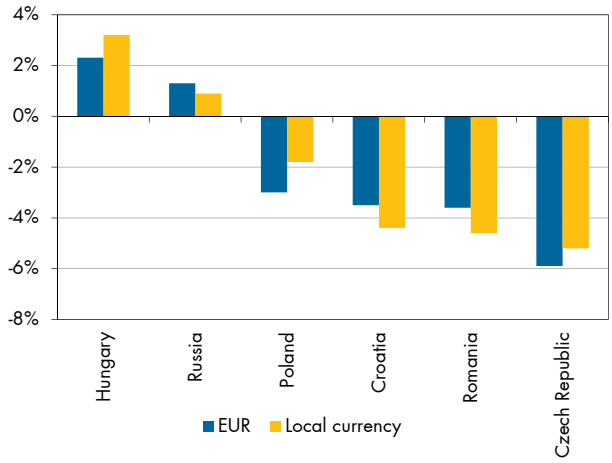
Financial analyst: Stefan Theußl, RBI Vienna

Portfolio weightings: stocks*

	Portfolio	Benchmark	Difference
Czech Republic	8.0%	8.0%	0.0%
Hungary	9.0%	7.0%	2.0%
Poland	24.0%	25.0%	-1.0%
Russia	33.0%	35.0%	-2.0%
Turkey	26.0%	25.0%	1.0%
Croatia	0.0%	0.0%	0.0%
Romania	0.0%	0.0%	0.0%

** Share in percentage points*
Source: RBI/Raiffeisen RESEARCH

Historical relative performance*



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

Expected stock market performance (%)

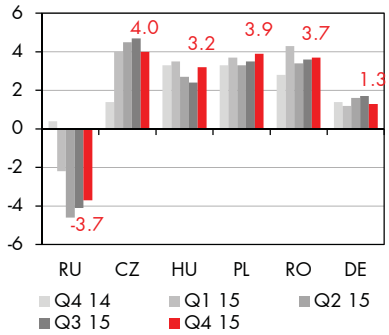
	3m		6m		9m		12m	
Countries	**EUR**	**LCY**	**EUR**	**LCY**	**EUR**	**LCY**	**EUR**	**LCY**
Czech Republic	5.5	5.2	-0.1	-0.4	4.4	4.1	1.0	0.8
Hungary	4.6	4.9	-0.4	-0.1	4.6	4.9	2.7	3.0
Poland	-1.2	1.1	-4.6	-3.5	-0.1	1.1	-5.8	-5.8
Romania	5.4	5.0	2.0	0.6	5.8	4.3	4.9	2.8
Russia	-4.2	2.4	17.0	8.4	20.1	9.5	26.1	10.6
Croatia	1.4	1.7	-2.3	-1.4	-0.9	0.7	-3.6	-2.4
Turkey	2.9	4.0	2.3	1.5	6.6	2.8	11.6	5.2

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

External risks overblown, but less EU transfers cut into growth

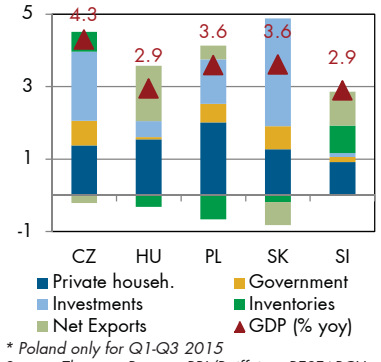
- **Robust CE/SEE growth despite a decrease in EU transfers, Romania and Poland particularly strong**
- **Low energy price environment keeps price pressures low for most of 2016, uptick in H2**
- **Russia to exit recession around mid-2016, followed by shallow growth; political risks in Ukraine high**
- **External risks due to China deceleration, euro area seen as limited, fiscal risks in Romania, Poland and Russia**

CEE GDP growth (% yoy)



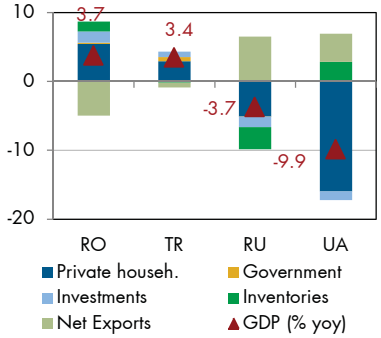
Source: Bloomberg, RBI/Raiffeisen RESEARCH

GDP growth contributions 2015 (pp)



** Poland only for Q1-Q3 2015*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

GDP growth contributions 2015 (pp)



** Russia and Turkey only for Q1-Q3 2015*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Contrasting economic trends between CE/SEE and Russia continue, but the divergences are diminishing in 2016. With the recession in Russia entering its second year, we still see a sharp East-West contrast in growth rates in CEE. While CE countries led regional GDP growth rates with almost 4% yoy on average in late 2015 and the SEE countries managed to achieve 3%, Russia's real GDP shrank by around 4% yoy in 2015. However, in 2016, these divergences are expected to diminish from both sides: we project an easing of the recession in Russia (and slow growth in Ukraine) and a moderation in growth rates towards 2.0% yoy in several Central European markets. Robust economic growth of 3.5%-4.0% yoy is still projected for Poland and Romania, lifting the CE and SEE aggregate growth rates. In the Western Balkans, we see a slight uptick in economic activity.

The investment boom in CE fuelled by EU transfers peaked in 2015, undercutting investment in 2016. The extraordinarily strong growth in CE and Romania was partly fuelled by EU transfers during the previous year. In 2015, EU New Member States (NMS) could for the last time draw funds from the seven-year EU budget period 2007-2013. This led to higher investments, with countries such as the Czech Republic, Slovakia, and Romania boosting the contribution of gross fixed investments to overall growth to 1.5-3.0pp, several times higher than in 2014 (for Poland and Hungary this was not the case as the peak in investment already came in 2014). The next seven-year EU budget continues to fund projects in NMS, but there is usually a lag until the funds are drawn. Thus, we expect the factor of EU transfers to play a less pronounced role in 2016 and possibly 2017, which should limit investment growth to some extent in 2016.

In our view, the downside risks to CE/SEE growth due to slower growth in China or a possible deceleration in the euro area are overblown. Our economists for the euro area and Germany recently cut their GDP growth forecasts for 2016 from 1.7% to 1.4% yoy and 2.2% to 1.8%, respectively. However, the GDP revision had a rather technical background and recently weaker manufacturing survey data should be taken with a grain of salt, as hard economic indicators actually point to a strong first quarter in Germany. Moreover, the sub-par PMI reading for Germany and especially France mask the fact that other euro area countries are improving. With regard to China, the economic impacts on CE/SEE are mostly of an indirect nature via the export of intermediate goods to Western Europe. However, Western European countries are sufficiently diversified to handle the blow from the mild deceleration of growth in China (our projection for official Chinese GDP growth is 6.5% for 2016, not much below the reported figure of 6.9% in 2015). Even a stronger slowdown may still be compatible with modest euro area growth. Thus, we currently would not overemphasise the threat of another slump in CE/SEE growth induced by lower external demand from China and euro area trade partners. On the other hand, we do not expect net exports to be a key factor for growth in CE/SEE as well. Already in 2015, only Hungary managed to boost its growth rate substantially by net exports. For Russia, the situation looks more worrisome. In the case of renewed China growth fears, the oil price could slip again, dragging the country back into recession.

Domestic household demand, which is particularly strong in Romania and Poland, will continue to be a supportive factor for CE/SEE growth in 2016. We currently see no convincing reasons that domestic demand in CE should falter in the near term. In CE countries with more limited private household growth, the contribution is around 1-1.5pp to overall GDP growth, a level that likely can be maintained. In Poland, a more expansionary fiscal policy by the new government might even boost household demand in comparison to 2015, adding upside risks to our GDP forecast of 3.6% yoy. In Romania, tax cuts from early 2016 and wage increases from 2015 are still positively impacting domestic consumption (but also pose the risk of renewed external and fiscal imbalances, a possible headache for a new government to be elected in late 2016).

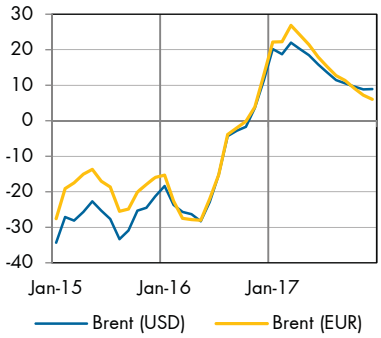
The rebound in inflation from ultra-low levels is being delayed by the lower energy prices, but wage pressures are emerging on the horizon. Since our inflation forecasts for 2016 from three months ago we had to revise the expected price increases substantially downward as the energy component exerts a negative impact for longer than anticipated. Our oil price projection for 2016 was lowered from USD 55/bbl to around USD 40/bbl. According to this oil price forecast, there is a positive impact from oil prices only from Q4 when the oil price is projected to reach USD 50/bbl again – not in spring/summer as previously anticipated. Thus, the average inflation rate could still hover closer to 0% in 2016 in Poland, Slovakia, and Slovenia, while risks to our more upbeat forecasts for Hungary and Czech Republic are on the downside. A low inflation environment for longer also presents challenges for monetary policy, and those central banks with monetary policy tools at hand could still act with further easing, as recently shown in Hungary. Moreover, with growth going into its third year in CE, we could finally see higher wage pressure in 2016 as unemployment rates are on a downward trend. Over a 2-3 year horizon, higher wages pressures could also translate into higher inflation rates.

Russia should see the end of recession in 2016, but no substantial recovery lies ahead. Russia managed to cope with the oil price shock of 2014/2015 relatively successfully, by devaluing its currency, slashing imports and decreasing external debt, resulting in a stabilisation of hard currency reserves. We now expect the economy in 2016 to contract only half as much as in 2014, by -2.0% after almost -4% last year, based on an average oil price of USD 40/bbl in 2016 (given the downward shift in oil prices we revised Russian growth from 0% to -2% in February). Most recently, with oil prices having again recovered from lows under USD 30/bbl and better economic data in early 2016, there are hopes that the economic contraction will be milder than our forecast. However, the main challenge for Russia going forward is of a fiscal nature as the budget deficit of 3-4% of GDP is paid out from a rainy-day fiscal fund which is expected to be depleted by end-2016/mid-2017 (a second fund may add another year of deficit funding). If oil revenues do not rebound sufficiently by the time the funds are depleted, Russian authorities will either have to slash expenditures or maximise issuance on internal and external markets.

Ukraine's development is again threatened by political risks. In Ukraine, the trough of the recession was passed in mid-2015. However, a political crisis in early 2016 is threatening the macro-stabilisation of the country, as it further delays IMF and other donor payments to the country. With Minsk-II also deadlocked and trade relations with Russia further deteriorating (while EU agricultural quotas hinder the country from gaining much from the new free trade agreement with the EU), we do not expect any strong recovery in Ukraine either.

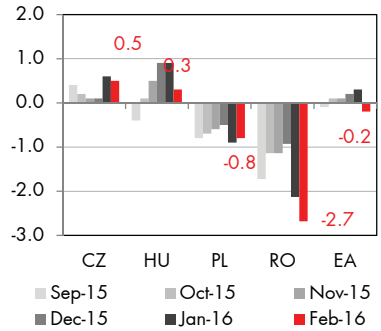
Financial analyst: Andreas Schwabe, CFA, RBI Vienna

Positive oil price impact delayed*



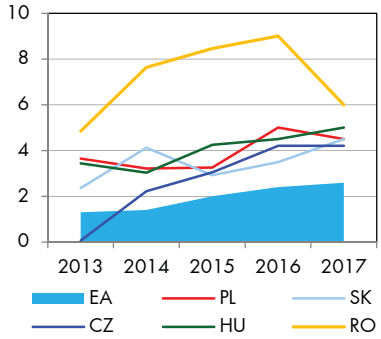
** yearly logarithmic changes of oil price*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Recent CPI trend (% yoy)



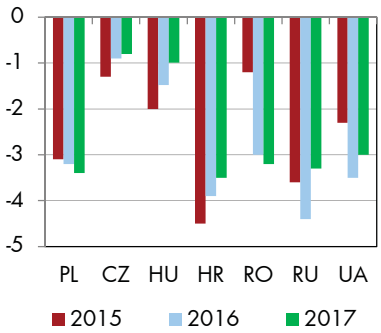
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Nominal wage growth (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

General budget deficits (% of GDP)

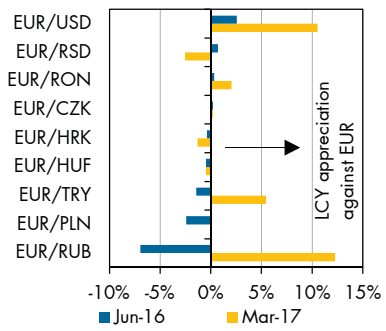


Source: National sources, RBI/Raiffeisen RESEARCH

A bit more pessimistic for the second quarter

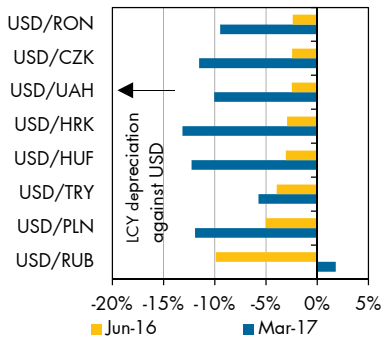
- **RUB recovery in Q1 driven by oil price stabilisation and diminished USD potential**
- **Q2 expected to be less supportive for CEE currencies after benign Q1**
- **Expectation of oil price setback projected to weaken RUB in Q2**
- **Prospects of more moderate USD strengthening to shield USD sensitive currencies**

Projections LCY vs EUR



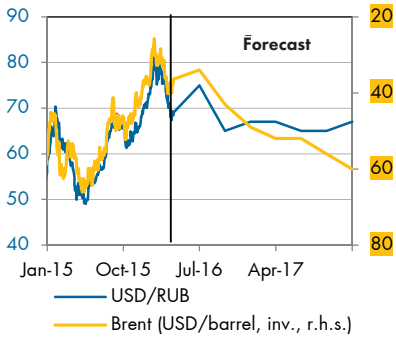
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Projections LCY vs USD



Source: Bloomberg, RBI/Raiffeisen RESEARCH

RUB following oil price closely



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

On the whole, Q1 2016 proved to be supportive for CEE exchange rates. That said, our original calls in the Central & Eastern European Strategy for Q1 2016 proved to be correct with the FX market witnessing some calming throughout the quarter. After the end of the zig-zag-pattern the Polish zloty delivered the projected appreciation towards 4.25 against the euro, the Hungarian forint reached the level of 310 to the euro, and even the Romanian leu, after having seen prolonged weakening, closed in on our original call of 4.40 to the euro. The Russian rouble, for which we had a buy recommendation against the euro, even surpassed our original assumption of USD/RUB 70, but given the somewhat softer USD against the euro it did not quite manage to reach our EUR/RUB call of 73.5. Then again, for the Polish zloty as well as the Russian rouble we seemed to have lost faith in our own projections during Q1 as things were not pointing in our direction and we thus revised our calls towards a more mainstream level, but in the end this turned out to be the wrong direction during the quarter.

Given the strong FX development in Q1, **we are a bit more pessimistic for Q2 2016, especially with regard to EE exchange rates**. Here, the Russian rouble should experience renewed depreciation pressure in light of our projection that the oil price rebound will see some resistance during Q2, as well as possible speculation on interest rate cuts by the Russian Central Bank (CBR). The aforementioned strength during Q1 also increases the magnitude for a setback, which for USD/RUB could mean into a range of 70-80 in our view. Likewise, in our view, the Polish zloty has potential for another setback in Q2, given the prolonged political jitters with FX loan conversion plans, conflicts with the EU or even further rating downgrades at the top of the list of worries. Then again, our view on the Hungarian forint has lightened up somewhat, with the recent additional ECB monetary easing taking the wind out of our original call for more HUF depreciation against EUR in the course of 2016 (especially towards end-2016). The Hungarian central bank (MNB) will have ample room to even cut its interest rate further without endangering the stability of the forint in our view. Improving fundamentals should additionally shield the forint, while the MNB would, on the other hand, prevent any noteworthy appreciation towards 300 against the euro. Nevertheless, given the continued policy of moderate HUF weakening by the MNB to support economic growth, we would still see risks skewed towards moderate medium-term depreciation for the forint.

Despite our projection of more USD strengthening potential against EUR, our call for USD has turned less aggressive for the remainder of 2016. This, in turn, should somewhat **shield USD sensitive currencies, such as the Turkish lira or the Russian rouble**, from stronger depreciation pressure during 2016.

For Q2 2016 we have a sell recommendation for the Polish zloty, the Russian rouble (as well as the basically untradeable UAH and BYR) **and the Turkish lira against the euro**. Additionally, we have a sell recommendation for all CEE currencies against USD. On a 12-month time horizon, we then have a buy recommendation for RUB and TRY against EUR (supported by our EUR/USD projections), while we have a sell recommendation for CE and SEE currencies against USD.

Financial analyst: Wolfgang Ernst, RBI Vienna

Idiosyncratic factors in focus after global risks ease

- **Following the FX-driven outperformance in Russia and Turkey, stretched valuations and FX setback risks leave us cautious**
- **Once price pressures wane in H2, Russian debt market attractiveness should be lifted, not least due to renewed rate cuts**
- **CE local debt markets offer significant risk buffer, with Hungary and Poland remaining our preferences**
- **Romania should face a period of elevated volatility, due to upcoming elections and an increasingly hawkish central bank**

Hopes of bottoming-out in oil prices, receding fears over China, and the better predictability of global central banks improved the backdrop for emerging bond markets in recent weeks. As a consequence, subdued core market yields and capped expectations in terms of USD strength paved the way for the **two high-yielders in our CEE research universe, Turkey and Russia, to outperform** (betw. 23 Feb, when issuing latest "CEE Debt Market Strategy", and 23 March, when writing this report). Russian LCY bonds posted the biggest gains, primarily driven by the rebound in the oil-sensitive RUB exchange rate. Long-end OFZs also posted capital gains (see chart). OFZ market sentiment was also fuelled by CPI headline inflation dropping more than anticipated in the past few months. However, according to our base case, RUB strength is set to soften on a 3m horizon: we anticipate renewed oil price weakness and resurgent inflation growth. Moreover, we assume that the pass-through effect from New Year's rouble weakness has not yet been transmitted to local prices completely. The relatively orthodox stance of Russian monetary policy (MP) is part of the central bank's critical endeavour to establish itself as a credible inflation targeter against the headwinds of demanding economic conditions. CPI headline inflation should peak in June, also giving inflation expectations a ride, which are closely monitored by the CBR. Then, **the door to restart rate cuts should be opened and offer attractive OFZ levels**. FX risks also keep us cautious on Turkey, as Fed hawkishness should ramp up prior to the next rate hike in June. Turkey's EM-typical sensitivity to US MP should resurface, especially in an environment where the local central bank's ability to respond should remain limited (reshuffling of MPC including governor likely, uncertainty in terms of the MP toolkit) and (geo)political risks are set to stay with us. The major risk to our broadly constructive view on CE/SEE debt markets on the end-June horizon, by contrast, is another sell-off in core euro area (EA) yields. This could be triggered by a possible overreaction to reaccelerating EA inflation growth in early-H2 2016. On the s/t investment horizon, however – assuming no Brexit – there should be **some room left for CE local debt markets to extend gains.** What fuelled the recent CE rally from the external front was the stepped-up ECB accommodation on top of the improved EM situation sketched above. Robust local fundamentals accompanied by local MP accommodation, on the other hand, were the back bones locally. Resumed rate cuts in Hungary and bond-market-friendly unconventionality should **continue to support HGBs**, although some HUF weakness should eat into the performance. Elsewhere, the retention of political reasonability – especially in terms of the FX loan conversion scheme – and the prudent MP stance of the new MPC, should **anchor Polish yields well**. Thus, the ongoing pricing-out of rate cut expectations limits the risks of pronounced zloty losses. As our chart shows, finally, risk buffers are in place in view of the comfortable spread levels over both US and DE. Finally, in Romania the build-up of reflationary pressure should prompt tighter liquidity conditions soon. This – in conjunction with election uncertainty – should set the stage for **moderate ROMGB yield increases from the current record-low levels**.

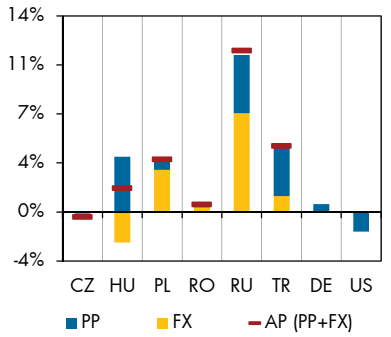
Financial analyst: Stephan Imre, RBI Vienna

Market strategy (until Jun-16)*

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

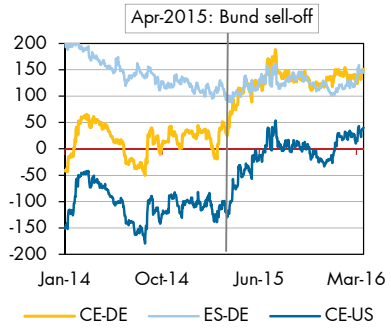
**LCY bonds: based on absolute performance in LCY*
***HU: 3y, not 2y tenor; previous recomm. (as of 23 Feb-2016 in our CEE Debt Market Strategy) in brackets; **FX** vs. EUR; B: Buy; H: Hold; S: Sell*
Source: RBI/Raiffeisen RESEARCH

Historical performance 10y LCY bond*



**between 23-Feb-16 and 29-Mar-16*
FX: currency performance (chg LCY/EUR)
PP: bond performance (price chg + carry)
AP: absolute performance (PP + FX)
DE and US: Only price performance (PP)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Rising CE bond risk premium vs. DMs*

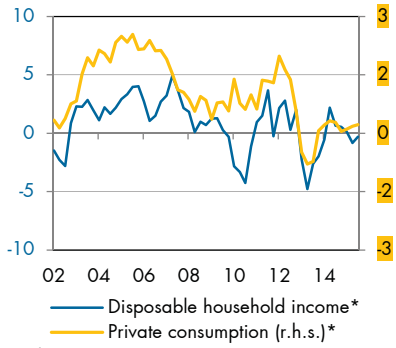


** risk premium = 10y-10y yield difference minus base rate difference (both vs. DE and US respectively, in bp)*
CE: Average (HU, PL & RO); ES: Spain; DM: Developed Markets DE and US
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Special factors to push business cycle dynamics

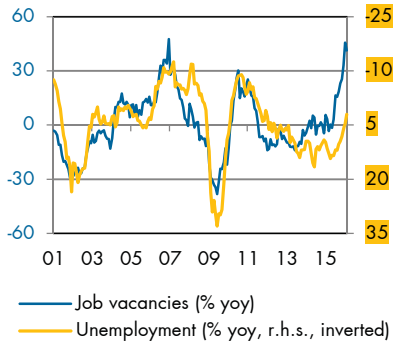
- **Modest acceleration of economic activity likely**
- **Tax reform should spur private consumption**
- **Equipment investment developing well, construction acts as a drag**
- **Positive signals from the labour market, but still no lasting improvement in sight**

Disposable income: poor performance



**real, moving 4Q sum, % yoy*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Labour market: positive signals of late



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

The **assessment of Austrian business cycle dynamics** in the past quarters is **mixed**. On the one hand, the Austrian economy has **returned to growth**, with real GDP expanding at an average rate of 0.3% qoq in 2015. For the year as a whole, GDP growth rose to 0.9%, from 0.4% in the previous year (2014). On the other hand, the pace of growth did not accelerate during the year, and the **recovery can only be described as moderate**. Above and beyond this, the GDP growth seen in 2015 was mainly supported by inventories and public sector consumption. By contrast, only minor contributions were made by external trade, private consumption, and investments, although some acceleration was seen in equipment investment over the course of the year. Private consumption showed some signs of improvement, even though its growth rate remains low.

Leading indicators were mixed recently. The Purchasing Managers' Index for the manufacturing sector rose in January, February as well as in March and its current level of 52.8 points (March) is higher than in the euro area. On the contrary, the Economic Sentiment Indicator compiled by the European Commission for February showed a steep decline of 5.3 points to a level of 96.0 and only marginally recovered in March (96.4). Although Austrian consumers are still very pessimistic, retail sales and real private household consumption expenditure developed better over the course of 2015 compared to what the consumer confidence indicators would have suggested.

All in all, the **pace of economic growth is expected to accelerate moderately**. In part, this assumption is based on **special factors. Private consumption** is expected to be one major driving force. Viewed in light of declining household real disposable income, the disappointing development of real private consumption seen in the last three years is hardly surprising. Declining real disposable income to a large extent can be traced back to above-average price increases: While nominal disposable household income has seen average gains since 2013 compared to the euro area, in real terms Austria is lagging far behind. Nonetheless, thanks to the **tax reform** which entered into effect on January 1, households' real disposable income should increase noticeably, adding momentum to private consumption. The same effect can also be expected from government transfer pay-

Key economic figures and forecasts

	2014	2015	2016e	2017f
Real GDP (% yoy)	0.4	0.9	1.4	1.4
Trade balance (goods and services, EUR bn)	12.4	12.8	10.9	10.6
Current account balance (% of GDP)	2.0	2.8	2.6	2.4
General budget balance (% of GDP)	-2.7	-1.2	-1.9	-1.8
Public debt (% of GDP)	84.2	86.2	85.7	84.9
Unemployment rate (avg, %, EU definition)	5.6	5.7	6.4	6.7
Employment (% yoy)	0.6	0.9	1.2	1.1
Consumer prices (avg, % yoy)	1.5	0.8	1.4	2.0
Real wages (% yoy)	0.9	1.3	0.1	0.0
Unit labour costs (% yoy)	2.3	1.4	1.3	1.7

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

ments to asylum seekers. Moreover, the spending to handle the stream of refugees should keep generating above-average growth rates in **public consumption** (public-sector employment, accommodation).

The **recovery in equipment investment** which started in 2015 should continue and provide support for the economy, while construction investment, which has been weak for some time, will at least probably not weigh on overall gross fixed capital formation in 2016.

No growth contribution is expected from net exports over the entire forecast horizon. While export growth should pick up, the same holds true for imports, due to solid domestic demand. The **direct effects of the growth slowdown in the emerging markets should be manageable** for Austria's exporters. For example, the No. 1 emerging market China is only ranked in 10th place in the list of important goods export markets for Austria (export share: 2.5%). Increasing growth rates for exports, for instance in trade with the USA (+16.7%), have been able to more than offset the declining exports to China (2015: -2.2%), as the USA has advanced to become the second most important export destination after Germany.

There have been **positive signs from the labour market recently**, as the number of job vacancies has increased strongly since mid-2015 and is now at levels not seen since 2008. Growth of employment has been somewhat stronger in past months than the one of the labour force. As a result, there has been a mild decline in seasonally adjusted unemployment. Nevertheless, **the situation on the labour market is likely to remain tense over the entire forecast horizon**, not least due to the inflow of asylum seekers, a continued inflow of workers from abroad as well as a higher participation rate of older people. This is the case, because one can assume that initially a large portion of asylum seekers will not be able to find employment and will thus appear in the unemployment statistics as looking for work.

At 0.8% yoy, the rate of **(HICP) inflation** in 2015 was significantly higher than the rate in the euro area as a whole (0.0% yoy) or Germany (0.1% yoy). Inflation is projected at 1.4% yoy for 2016 and 2.0% yoy for 2017 and will thus be well higher than the rate for the overall euro area in both of the coming two years (2016: 0.7% yoy; 2017: 1.5% yoy), which is primarily attributable to domestic factors (high regulation in services, increasing non-wage labour costs).

Financial analyst: Matthias Reith, RBI Vienna

GDP: Value added by sector

Change (% yoy, in real terms)	2014	2015	2016e	2017f
Agriculture & forestry	4.1	-6.7	0.0	0.0
Prod. of goods/mining	1.1	1.1	1.7	1.4
Energy/water supply	2.6	3.2	1.5	1.3
Construction	-2.0	0.1	1.0	1.2
Wholesale and retail trade	-0.5	1.8	2.8	2.0
Transportation	-1.1	-0.4	1.0	1.3
Accom. & restaurant trade	0.6	0.8	1.0	1.2
Information and communication	-2.7	-1.7	-0.5	1.0
Credit and insurance	-1.5	-0.2	0.0	0.5
Property & business services	2.8	2.4	1.5	1.8
Other economic services	1.2	-1.0	1.5	2.0
Public sector	-0.2	0.4	1.2	1.0
Healthcare, social services	-0.2	1.8	2.2	1.8
Other services	0.4	1.3	1.5	1.4
Gross domestic product	0.4	0.9	1.4	1.4

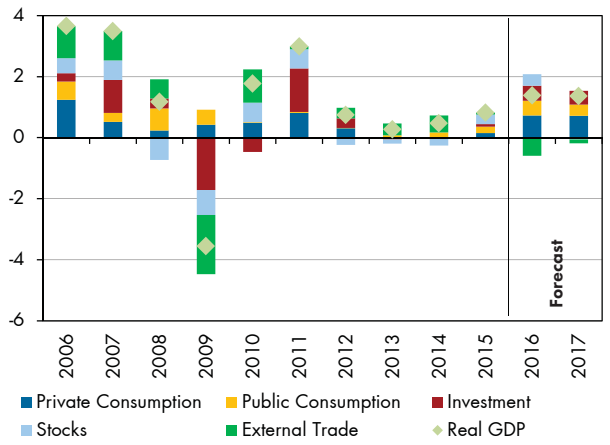
Source: Statistics Austria, RBI/Raiffeisen RESEARCH

GDP: Expenditure composition

Change (% yoy, in real terms)	2014	2015	2016e	2017f
Private consumption	0.0	0.4	1.4	1.4
Public consumption	0.8	1.0	2.4	1.8
Gross fixed capital formation	-0.2	0.4	2.2	2.0
Equipment	1.3	2.8	3.6	2.6
Construction	-1.0	-1.2	0.6	1.6
Exports	2.1	1.7	2.4	2.5
Imports	1.3	1.7	3.8	3.0
Gross domestic product	0.4	0.9	1.4	1.4

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

Contributions* to real GDP growth (yoy)

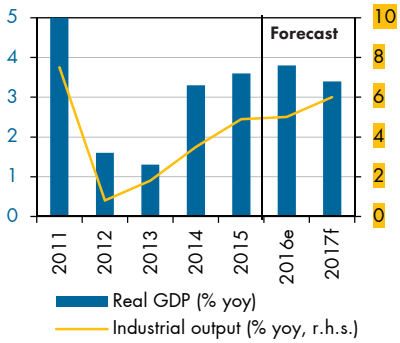


**in percentage points*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

New government fulfilling promises, at cost of image damage

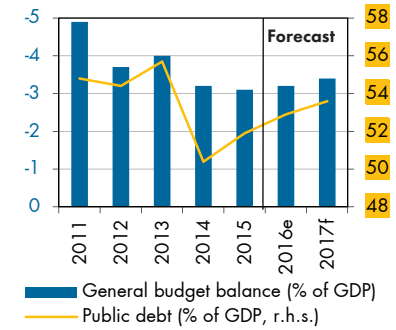
- **Fiscal loosening will support GDP growth and help fight deflation**
- **New MPC less dovish than feared, stable base rate path likely**
- **PLN influenced by domestic politics, with risks skewed to the upside**
- **Ratings revisions and CPI path a risk factor for bonds**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

The new government formed in late autumn 2015 by Law and Justice is very active in changing the economic environment in Poland. It has **fulfilled one of its main promises from the election campaign** and introduced a special benefit of PLN 500 (almost 13% of the 2015 average wage) for every second and subsequent child, which will already start to flow into the economy in April. With such a huge transfer, which – as we assume – will be mainly used for spending, not saving, **private consumption will be the most important growth driver** for the Polish economy and the main reason for even stronger GDP growth than the 3.6% rate seen in 2015. The introduction of the 500+ programme will also help to offset the negative effect of lower investment activity due to lower EU funds inflows (new period is just starting) and lower public spending (after a peak in the 2015 election year). The transfers might boost private consumption even above 5% yoy at the end of 2016, which should also help to generate some inflation pressure. Currently, the renewed downward pressure on oil prices resulted in deeper **deflation, which most probably will persist up to the end Q3 2016**. In the final three months of 2016, we expect a strong upward trend which will mainly result from strong base effects. Despite prolonged deflation, the MPC declares that it will keep interest rates unchanged. While this has been our base scenario for quite a long time, the **neutral stance of the MPC is surprising for the markets**, which were betting on a dovish shift due to the reshuffling of the MPC in Q1. All of the new MPC members were nominated by the Law and Justice Party and the new President A. Duda, and it was feared that exclusively pro-growth dovish MPC members would be installed. Apart from the belief that deflation is actually a growth-positive factor in Poland and that cuts will also not be effective in stimulating inflation or growth, the MPC underlines the need for an effective tool (high interest rate) in case of emergency. With the domestic economy influenced by a strong drip, this "emergency" might emerge from the global environment.

Key economic figures and forecasts

	2011	2012	2013	2014	2015	2016e	2017f
Nominal GDP (EUR bn)	380.2	389.4	394.8	410.7	427.9	433.5	465.4
Real GDP (% yoy)	5.0	1.6	1.3	3.3	3.6	3.8	3.4
Industrial output (% yoy)	7.5	0.8	1.8	3.5	4.9	5.0	6.0
Unemployment rate (avg, %)	12.4	12.8	13.5	12.3	10.5	9.4	9.0
Nominal industrial wages (% yoy)	5.0	3.4	2.9	3.7	3.5	4.5	4.0
Producer prices (avg, % yoy)	7.6	3.3	-1.3	-1.5	-1.7	0.8	2.0
Consumer prices (avg, % yoy)	4.3	3.7	0.9	0.0	-0.9	0.0	1.7
Consumer prices (eop, % yoy)	4.6	2.4	0.7	-1.0	-0.5	1.5	2.0
General budget balance (% of GDP)	-4.9	-3.7	-4.0	-3.2	-2.5	-3.2	-3.4
Public debt (% of GDP)	54.8	54.4	56.0	56.0	51.5	52.9	53.6
Current account balance (% of GDP)	-5.1	-3.5	-1.3	-2.0	-0.2	-0.9	-1.2
Official FX reserves (EUR bn)	75.4	82.6	77.1	83.0	87.4	78.0	80.0
Gross foreign debt (% of GDP)	65.8	71.4	70.4	71.1	70.1	72.9	73.1
EUR/PLN (avg)	4.1	4.2	4.2	4.2	4.2	4.3	4.2
USD/PLN (avg)	3.0	3.3	3.2	3.2	3.8	3.9	4.0

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Financial market outlook

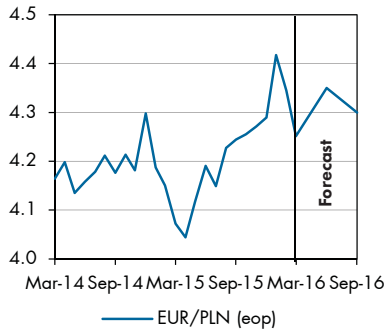
The **beginning of 2016 brought another wave of PLN depreciation**, stronger than the one seen in Q4 2015. EUR/PLN reached levels above 4.50 – the highest in 4 years – as local political risk increased. This was caused mainly by two events: 1) the European Commission's decision to investigate whether there has been a breach of the rule of law following institutional changes after the elections; and 2) the surprising cut to Poland's rating by S&P in mid-January (from A- with positive outlook to BBB+ with negative outlook). PLN weakening was enhanced by another increase in global risk aversion caused by fears of an emerging market slowdown.

However, this move was reversed starting end-January and EUR/PLN returned below 4.30 as risk appetite improved. But the events from January and the government's change in fiscal policy aiming at a stable deficit-to-GDP ratio at a 3% threshold (instead of fiscal tightening) will in our opinion continue to weigh on PLN, hampering any durable strengthening of EUR/PLN. Moreover, it will also make the zloty more vulnerable to shifts in global sentiment as Poland will be viewed more like an emerging market and less as a developed one compared to previous years. Additional risk comes from rating revisions planned for May and July. As a result, we expect EUR/PLN to stay closer to 4.30 throughout 2016. On the other hand, the **risk of more significant weakening has been reduced after more monetary easing from the ECB and the delay in Fed interest rate hikes**. There are also two important local factors: the strong economy which will accelerate owing to the child benefits programme, and stable monetary policy as opposed to previous fears of easing bias after the change of most MPC members.

The events from January also had an effect on the bond market as yields along the whole curve increased, with 10y yields temporarily rising to around 3.5% – the highest level in 1.5 years. However, the **spike in yields was entirely reversed and zloty bonds are currently benefitting from increased risk appetite supported by ECB easing** which should also bolster demand later this year. Meanwhile, the stable monetary policy in Poland should allow for anchoring 2y yields near 1.5% as additional demand might come from domestic banks, due to the tax benefits for holding those assets (sovereign bonds are exempt from the banking tax introduced in February). As a result, we expect a flat yield path on the short-end of the curve. However, we **incorporate some risk on the longer-end** due to the upcoming rating revisions and the expected rapid increase of inflation in the second half of the year (a similar tendency might be observed in Germany which will also add to some upward pressure in Polish yields).

Financial analysts: Marta Petka-Zagajewska, Dorota Strauch, Raiffeisen Polbank, Warsaw

Exchange rate development



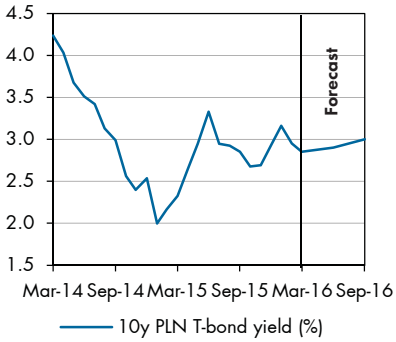
EUR/PLN: 5y high 4.56, 5y low 3.9
Source: Bloomberg, Raiffeisen RESEARCH

Exchange rate forecasts

	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
EUR/PLN	4.25	4.35	4.30	4.30	4.25
Cons.		*4.33*	*4.33*	*4.27*	*4.25*
USD/PLN	3.80	3.95	3.91	4.10	4.21
Cons.		*3.99*	*4.01*	*3.95*	*4.01*

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

PLN yield development (%)



10y PLN T-bond yield: 5y high 6.32, 5y low 2.0
Source: Thomson Reuters, Raiffeisen RESEARCH

Interest rate forecasts (%)

	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
Key rate	1.50	1.50	1.50	1.50	1.50
Consensus		*1.30*	*1.20*	*1.25*	*1.35*
1 month[2]	1.56	1.60	1.60	1.60	1.60
3 month[2]	1.67	1.70	1.70	1.70	1.70
Consensus		*1.63*	*1.62*	*1.64*	*1.71*
6 month[2]	1.74	1.80	1.80	1.80	1.80
12 month[2]	1.76	1.80	1.80	1.80	1.90

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

Yield forecasts (%)

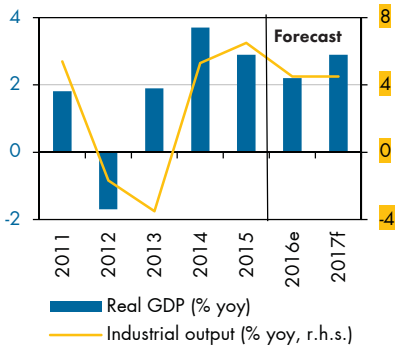
	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
2y T-bond[2]	1.46	1.5	1.6	1.7	1.8
Consensus		*1.6*	*1.7*	*1.8*	*1.9*
10y T-bond[2]	2.85	2.9	3.0	3.2	3.3
Consensus		*3.0*	*3.1*	*3.2*	*3.3*

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

Domestic demand is the No. 1 growth factor

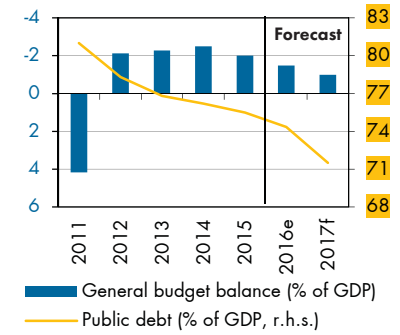
- **Slowdown in economic activity in 2016 only temporary, but labour market bottlenecks spreading**
- **Favourable public debt dynamics to continue, whilst stock remains high compared to regional peers**
- **MNB to continue loosening monetary conditions, including keeping HUF on the weaker side**
- **Eurobonds supported by credit story and supply side, LCY bonds by (global) central bank backdrop**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

Domestic demand is becoming increasingly robust: more than half of the 2.9% GDP growth registered in 2015 derived from the acceleration of household consumption, flanked by growing employment and real income. The labour market is stronger than in the pre-crisis years with the unemployment rate at 6.2% at year-end 2015, and employment rising by 3% in the course of 2015, while real wages increased by over 4%. Labour market bottlenecks are now the No. 1 problem in the economy, and we expect the above trends to continue over into 2016 as well. Consequently, **we forecast the consumption-led economic growth pattern to stay**. The 2016 slowdown is seen as temporary, attributed to weaker EU funds inflows, and for 2017 we expect close to 3% full-year growth.

The structure of economic growth is helpful for the public budget: the 2015 deficit was 2% of GDP (below plan) and the public debt-to-GDP ratio decreased to 75.5%. While the stock of debt is still far above regional peers, the decreasing tendency is becoming more visible. Meanwhile, the **cost of debt refinancing is falling** due to the generally depressed yield environment and fading country-specific risks in particular – interest paid on debt decreased from 4.2% of GDP in 2014 to 3.6% in 2015. Currently, the government is toying with the idea of targeting a zero budget deficit plan; while we do not forecast this to happen, the low deficit and debt reduction policies do not look as if they will be derailed in the coming years. **We forecast a budget deficit below 2%** and a further reduction of the debt-to-GDP ratio for 2016.

External balances are in massive surplus: the trade balance was at an all-time high in 2015 (above 7% of GDP) and the current account balance is steadily positive. Inflation was stuck near the zero level in 2014 and 2015, and in **2016 we expect below 1% average inflation**, driven mainly by imported low inflation (especially through energy prices). Looking ahead, we believe inflation pressures

Key economic figures and forecasts

	2011	2012	2013	2014	2015	2016e	2017f
Nominal GDP (EUR bn)	100.7	99.0	101.3	104.2	108.5	111.5	117.3
Real GDP (% yoy)	1.8	-1.7	1.9	3.7	2.9	2.2	2.9
Industrial output (% yoy)	5.4	-1.7	-3.5	5.3	6.5	4.5	4.5
Unemployment rate (avg, %)	11.0	10.9	10.3	7.9	7.0	6.2	5.7
Nominal industrial wages (% yoy)	6.2	-0.7	4.4	4.0	5.3	5.5	6.0
Producer prices (avg, % yoy)	4.3	4.3	0.7	-0.4	-0.6	0.4	2.9
Consumer prices (avg, % yoy)	3.9	5.7	1.7	-0.2	0.0	0.9	2.8
Consumer prices (eop, % yoy)	4.1	5.0	0.4	-0.9	0.9	2.3	2.5
General budget balance (% of GDP)	4.2	-2.1	-2.3	-2.5	-2.0	-1.5	-1.0
Public debt (% of GDP)	81.0	78.3	76.8	76.2	75.5	74.4	71.5
Current account balance (% of GDP)	0.7	1.9	4.1	3.9	3.8	3.7	3.4
Official FX reserves (EUR bn)	37.6	33.9	33.8	34.7	30.5	26.0	24.0
Gross foreign debt (% of GDP)	134.5	128.5	117.6	113.9	106.0	98.6	89.5
EUR/HUF (avg)	279.4	289.2	296.8	308.7	309.9	314.2	316.9
USD/HUF (avg)	201.2	225.1	223.6	232.8	279.4	285.6	298.9

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

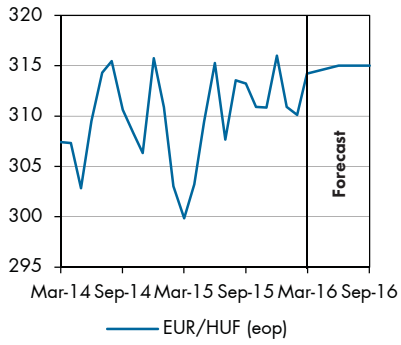
are accumulating, given the overheated labour market conditions and forecast inflation moving closer to the 3% target by 2017.

Financial market outlook

The Hungarian central bank (MNB) has been in an easing mood given the extension of its FGS cheap loan programme. In parallel, another growth-supporting scheme (GSP) was launched in January 2016, flanked by additional monetary policy tools which should promote SME lending (LTRO, new MNB deposit and IRS facilities). Tailwinds from global central bank dovishness come on top of the disappointing local CPI inflation dynamics and prompt us to expect further adjustment to MNB's interest rates. In our baseline scenario, the **MNB will lower the base rate further to 1%** from the current 1.20% following the earlier-than-expected restart of the rate cutting cycle on 22 March. In addition, new quantitative easing actions by mid-2016 should target the long-end of the LCY yield curve (cushioning possible pressure stemming from any rise in core market yields). With this outlook, HGBs should remain supported by further bond-market-friendly monetary stimulus, including resumed rate cuts and/or new incentives to banks to hold more long-term state debt on their balance sheets. Moreover, favourable developments on the fiscal front – including the latest statements by policymakers to **target a balanced budget in the next few years** – should fuel the already positive credit story in Hungary (return to investment grade still pending in H1). Regarding Eurobonds, **the Government Debt Management Agency (GDMA) will probably refrain from any external bond issuance this year** or next. This would be in line with the strategy of policymakers to reduce the FX share within the government debt portfolio. Nevertheless, it may well happen that if positive market circumstances prevail (or improve further, especially the extension of ECB QE and the investment grade by at least two major rating agencies in the course of the year), GDMA will test the market with a EUR 1-2bn Eurobond issuance (we would give at least 30-40% chance to this scenario). Looking forward, as the central bank will roll out new measures in H1 2016, we keep our call for **further moderate HUF-weakening against the euro**. After January's roller-coaster ride, EUR/HUF remained close to its 310 level for most of Q1 2016, settling back to the stronger side of the range of roughly 310-315. However for the rest of 2016 we expect EUR/HUF to trade around levels of 315, while seeing the risk tilted rather towards a moderate weakening trend for the forint until the end of 2016. This assumption is also in line with the MNB's strategy of allowing HUF to depreciate moderately to support economic growth.

Financial analysts: Zoltán Török, Gergely Pálffy, Raiffeisen Bank Zrt., Budapest

Exchange rate development



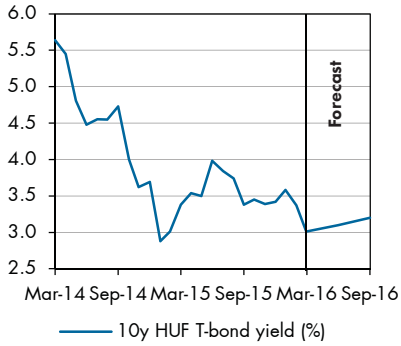
EUR/HUF: 5y high 321.02, 5y low 262.04
Source: Thomson Reuters, Raiffeisen RESEARCH

Exchange rate forecasts

	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
EUR/HUF	314.21	315	315	315	315
Cons.		*311.0*	*310.5*	*310.0*	*310.0*
USD/HUF	280.91	286	286	300	312
Cons.		*286.0*	*290.5*	*290.0*	*288.0*

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

HUF yield development (%)



10y HUF T-bond yield: 5y high 10.83, 5y low 2.82
Source: Thomson Reuters, Raiffeisen RESEARCH

Interest rate forecasts (%)

	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
Key rate	1.20	1.00	1.00	1.00	1.00
Consensus		*1.10*	*1.10*	*1.20*	*1.25*
1 month[2]	1.20	1.05	1.05	1.05	1.10
3 month[2]	1.20	1.05	1.05	1.05	1.10
Consensus		*1.31*	*1.31*	*1.33*	*1.38*
6 month[2]	1.15	1.15	1.15	1.15	1.15
12 month[2]	1.08	1.15	1.15	1.15	1.15

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

Yield forecasts (%)

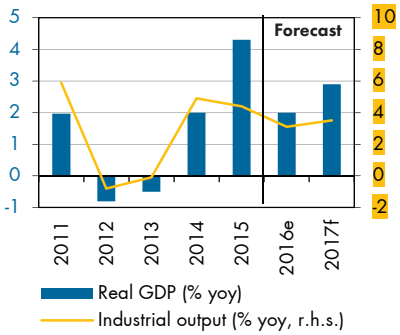
	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
3y T-bond[2]	1.62	1.7	1.8	1.9	1.9
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*
10y T-bond[2]	3.01	3.1	3.2	3.3	3.4
Consensus		*3.41*	*3.37*	*3.36*	*3.44*

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

Positive picture, despite economic deceleration

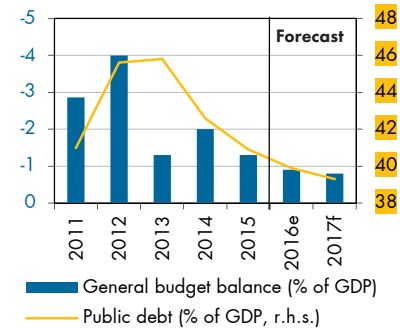
- **Industrial production slower due to technical outages, detracting from the stellar 2015 GDP**
- **Wage growth should eventually spur inflation, with labour market back to pre-crisis levels**
- **C/A balance set for another record surplus, increasing CZK appreciation pressure**
- **National Bank extends EUR/CZK floor to H1 2017, support for CZGBs to stay**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

In 2016, the Czech Republic will hand over its crown as the fastest growing economy in the CE-4 region to Poland, as **Czech GDP growth is expected to decelerate towards 2%** from 4.3% in 2015. Despite the slower economic growth, the outlook is favourable. Almost record high consumer confidence, very good conditions on the labour market, and expectations for further wage growth should support already solid household consumption. The external balance should further improve as both trade and current account balances are set for another record surplus. Private investments may surprise positively. Conversely, public investments are expected to grow at a significantly slower pace than last year mainly due to lower drawdowns of EU funds.

Economic deceleration was already apparent in Q4 2015 as outages in the energy and chemical sectors dampened industrial production, and construction slowed down despite the unusually warm weather conditions. However, **industrial production still shows an uptrend and will grow at around 3% yoy** as car production – the largest contributor to industry growth – should remain very solid. We expect that the labour market will tighten further and employers will find it more and more difficult to find adequate job candidates, especially in technical fields. This will consequently push firms to **raise salaries**. In 2016, for the first time since 2008 the unemployment rate is expected to reach 6% on average and average nominal wage growth to accelerate to above 4% yoy. Inflation should pick up and rise slightly faster than its euro area counterpart. Under the assumption that oil prices will increase towards 50 USD/barrel, the **inflation rate should reach the 2% yoy mid-target of the CNB at the beginning of 2017**. Risks to the prognosis are lower aggregate demand growth as well a slower-than-expected increase in the oil price.

Key economic figures and forecasts

	2011	2012	2013	2014	2015	2016e	2017f
Nominal GDP (EUR bn)	163.5	160.8	156.9	154.7	164.1	171.5	183.3
Real GDP (% yoy)	2.0	-0.8	-0.5	2.0	4.3	2.0	2.9
Industrial output (% yoy)	5.9	-0.8	-0.1	4.9	4.4	3.1	3.5
Unemployment rate (avg, %)	6.7	6.8	7.7	7.7	6.5	5.9	5.7
Nominal industrial wages (% yoy)	3.5	3.2	1.0	2.9	3.0	4.1	4.0
Producer prices (avg, % yoy)	5.6	2.1	0.8	-0.8	-3.2	-2.3	2.4
Consumer prices (avg, % yoy)	1.9	3.3	1.4	0.4	0.3	0.7	1.7
Consumer prices (eop, % yoy)	2.4	2.4	1.4	0.1	0.1	1.8	1.5
General budget balance (% of GDP)	-2.9	-4.0	-1.3	-2.0	-1.3	-0.9	-0.8
Public debt (% of GDP)	41.0	45.6	45.8	42.6	40.9	39.9	39.3
Current account balance (% of GDP)	-2.1	-1.6	-0.5	0.6	1.4	1.5	0.8
Official FX reserves (EUR bn)	31.0	34.0	40.8	45.0	59.4	88.6	99.6
Gross foreign debt (% of GDP)	54.8	60.2	63.5	66.6	70.6	74.3	76.4
EUR/CZK (avg)	24.6	25.1	26.0	27.5	27.3	27.0	26.4
USD/CZK (avg)	17.7	19.6	19.6	20.8	24.6	24.6	24.9

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Financial market outlook

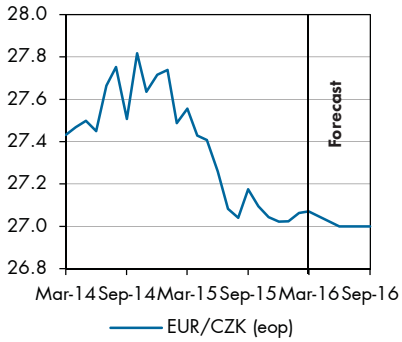
The CNB continues intervening on the FX market keeping the EUR/CZK floor at 27.0. By February, the amount of FX reserves accounted for less than 40% of GDP. In mid-2015, the share was close to 30%. In mid-2016, the governor of the CNB, Mr Singer, will step down as his 6-year mandate as CNB governor ends. Most probably, current Board member Jiri Rusnok will be named as the new governor. Although this change makes the situation theoretically more suitable for changes, we do not think it will in itself lead to an earlier exit from the current FX regime. In terms of the timing of the exit from the current FX regime, the key variable will be the inflation outlook. We expect that Czech inflation will reach the 2% target in Q1 2017. At that time, speculation about CZK appreciation will rise. Nevertheless, in its own right reaching the inflation target does not mean an automatic end to the intervention regime. By that time the level of FX reserves could rise to above 50% of GDP. For the CNB there is no explicit level of pain, but as mentioned by Mr Rusnok, the CNB cannot intervene indefinitely. Given the additional and prolonged ECB easing measures, however, **we have postponed the end to the FX regime (and thus CZK appreciation) to Q2 2017.**

The CZK trajectory after exit is far from clear. The stronger the market speculation before the exit, the bigger the distortions caused by the CNB and the lower the ensuing appreciation of CZK. Therefore, we would warn of high CZK volatility for that time period. **The timing of the exit will probably become more and more foggy and the CNB wording will grow less clear as we get closer to the end.** As a weapon used to fight appreciation pressures, the CNB might introduce negative interest rates. That is not a part of our base-case scenario but we would likewise not rule this out. In that case, the CNB would probably choose some kind of selective negative deposit rates on new inflows.

The Czech fiscal situation remains favourable. The budget deficit in 2015 was roughly 1.3% of GDP and public debt declined to around 40% of GDP. In 2016, we expect only a gradual increase in the budget deficit. The **financing conditions of the Czech ministry of finance remain very favourable with government bond yields negative until 4y maturity**. The ministry can react flexibly to market conditions on new CZGB issues. Speculation on future CZK appreciation translated into negative EUR-CZK basis swaps will help to keep Czech government bond yields down especially on the short-end of the curve. For H1 2017 we expect higher volatility on the Czech FX and consequently FI market. In the meantime, the Czech government bond yield curve will stay close to the German benchmark.

Financial analysts: *Michal Brozka, Daniela Milučká, Raiffeisenbank a.s., Prague*

Exchange rate development



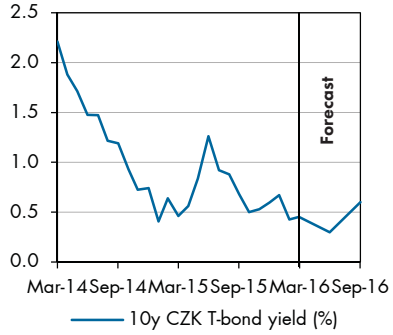
EUR/CZK: 5y high 28.35, 5y low 24.06
Source: Thomson Reuters, Raiffeisen RESEARCH

Exchange rate forecasts

	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
EUR/CZK	27.07	27.00	27.00	27.00	27.00
Cons.		*27.00*	*27.00*	*27.00*	*27.00*
USD/CZK	24.20	24.55	24.55	25.71	26.73
Cons.		*24.79*	*25.01*	*25.24*	*25.47*

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

CZK yield development (%)



10y CZK T-bond yield: 5y high 4.45, 5y low 0.36
Source: Thomson Reuters, Raiffeisen RESEARCH

Interest rate forecasts (%)

	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
Key rate	0.05	0.05	0.05	0.05	0.05
Consensus		*0.05*	*0.05*	*0.05*	*0.10*
1 month[2]	0.20	0.22	0.22	0.22	0.20
3 month[2]	0.29	0.30	0.30	0.30	0.30
Consensus		*0.28*	*0.27*	*0.27*	*0.28*
6 month[2]	0.36	0.40	0.40	0.40	0.45
12 month[2]	0.45	0.45	0.50	0.53	0.55

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

Yield forecasts (%)

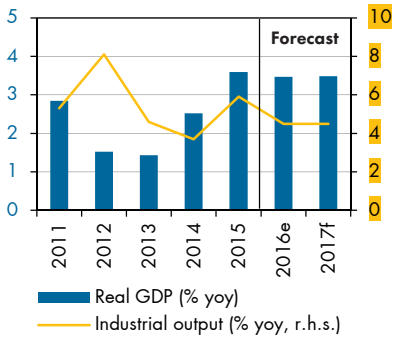
	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
2y T-bond	0.03	-0.3	-0.3	-0.4	-0.4
Consensus		*-0.2*	*-0.2*	*-0.2*	*0.0*
10y T-bond	0.45	0.3	0.6	0.7	0.9
Consensus		*0.7*	*0.8*	*0.9*	*1.1*

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

Strong economic performance, squeezed yields

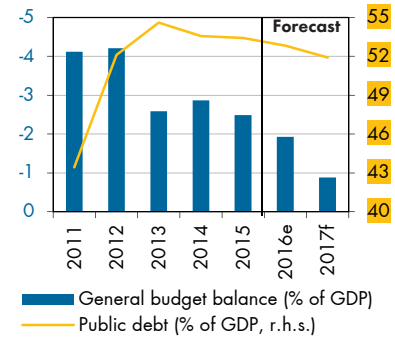
- **Elections result in new coalition with SMER as the leader**
- **Booming economy is visible in labour market and inflation**
- **After one year of PSPP, ECB owns 17% of total outstanding Slovak government debt**
- **ECB bond purchases squeezd Slovak yields**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Political outlook

SMER still took the most votes in the recent parliamentary elections. Nevertheless, the result of "just" 28.3% of the votes represented a heavy loss compared to 44.4% in the 2012 elections (49 seats compared to 83). Consequently, a **single-party government will be probably replaced by a coalition government** consisting of four parties. The dominant party SMER will be supplemented by the partially transformed ex-nationalist SNS party and on the other side the Hungarian Most-Híd party. The last member will be the party SIET, which was considered as a leader among the right parties shortly before the election, but suffered the biggest loss compared to the opinion polls. This unusual composition of the government reflects the fact that **eight different parties were able to pass the 5% threshold**. It seems that key seats in the government including the Ministry of Finance will be occupied by the same nominees as in the incumbent government. The draft agenda of the new government includes the goal of a balanced public budget and a decrease in the corporate tax rate to 21% (from 22%). The government also declared it would focus on the anti-corruption programme and increasing public control in the justice system. Bearing in mind the policy of the SMER government during the last 4 years, however, we remain a bit reserved as regards the implementation of reforms in the fields of healthcare and anti-corruption. **As for the fiscal plans, we are bit more optimistic** since the better-than-forecasted tax revenue creates some space for deficit reduction.

Economic outlook

GDP growth for Q4 2015 was positive, as the annual rate came in at +4.3% yoy in Q4 2015 and the quarterly growth rate was stable at 1% for the last 3 quarters of 2015. Last year, the economy was clearly fuelled by inflows of EU funds (finishing the 2007-2012 programming period), but this will not be the case in 2016. The construction sector posted an exceptionally strong year in 2015, but we expect a mild setback in construction output in 2016. **Overall GDP growth**

Key economic figures and forecasts*

	2011	2012	2013	2014	2015	2016e	2017f
Nominal GDP (EUR bn)	70.4	72.4	73.8	75.6	78.1	81.2	85.8
Real GDP (% yoy)	2.8	1.5	1.4	2.5	3.6	3.5	3.5
Industrial output (% yoy)	5.3	8.1	4.6	3.7	5.9	4.5	4.5
Unemployment rate (avg, %)	13.4	13.9	14.2	13.2	11.5	10.7	10.1
Nominal industrial wages (% yoy)	3.6	4.0	3.6	5.1	2.9	3.5	4.5
Producer prices (avg, % yoy)	2.6	3.9	-0.1	-3.5	-4.2	-2.0	2.0
Consumer prices (avg, % yoy)	3.9	3.6	1.4	-0.1	-0.3	-0.1	2.2
Consumer prices (eop, % yoy)	4.4	3.2	0.4	-0.1	-0.5	0.9	2.5
General budget balance (% of GDP)	-4.1	-4.2	-2.6	-2.9	-2.5	-1.9	-0.9
Public debt (% of GDP)	43.4	52.1	54.6	53.6	53.4	52.8	51.9
Current account balance (% of GDP)	-5.0	0.9	2.0	0.1	-1.3	-0.9	-0.7
Gross foreign debt (% of GDP)	78.5	75.8	81.9	89.7	86.7	85.4	82.6

** euro area entry on 1 January 2009*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

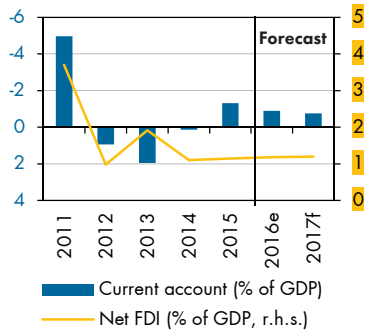
in 2016 should rely more on private consumption. In Q1 2016, the headline growth rate should decrease towards 3.7%.

The labour market improvement is in line with the overall development of the economy. Strong service and industry sector performance generated total employment growth of 2% in 2015, returning to the pre-crisis level. Real wage growth of 4.1% in Q4 2015 suggests a potential problem with skill-mismatch on the labour market in the next couple of years. **Despite the favourable financial conditions, households are still reluctant to spend money** and the saving rate of households reached historical highs.

In February, consumer inflation stood at -0.4% yoy and inflation has been in negative territory for more than 2 years now. The key factor is still lower energy prices and lower VAT (from January 2016 the VAT rate declined from 20% to 10% for a limited number of food items). Core inflation (ECB methodology, e.g. headline ex food, alcohol, tobacco and energy) is slowly picking up and is now at +0.9%. This development is in line with the smoothly running economy, which is able to generate strong employment and wage growth. We **expect headline inflation to remain just barely in negative territory until the summer of 2016**, due to base effects but towards the end of 2016, the rate should rise to 1%. The annual average should be -0.1% in 2016.

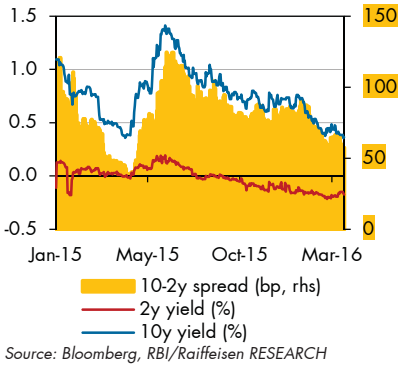
The public deficit should be around 2% of GDP in 2016. Plans for further cuts beyond 2016 are in the hands of the new government, because the current plans do not contain any measures on how to achieve a balanced budget. Public debt should decrease to 52% of GDP in 2016. In H2 2015, we saw especially good VAT and corporate tax collection. Unfortunately, the government is using the better tax revenues for higher spending rather than decreasing the deficit.

Current account and FDI inflows



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Slovak government bonds



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Financial market outlook

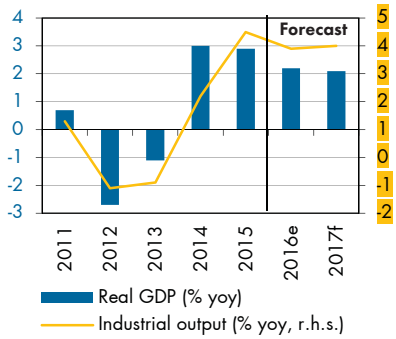
The ECB has successfully continued its Public Sector Purchase Programme (PSPP). After one year of this programme, the **ECB holds Slovak bonds in the amount of EUR 5.7 bn.** This represents around 17% of total outstanding debt (bonds and T-bills) and is approximately 1.5 times higher than the issuance of new bonds in 2015. This illustrates the strong impact of the PSPP on Slovak bond pricing. In Q1 2016, the spread of 10-year Slovak government bonds vs. German bonds was just 32bp on average. The spread is relatively low for the current Slovak country rating (A+ from S&P), and we do consider the rating as appropriate. However, since the ECB announced an increase in the amount of monthly purchase of bonds in the PSPP (to EUR 80 bn) until April 2017, the spread increase is limited. **In the course of 2016, higher monthly ECB purchases of Slovak bonds should match higher Slovak refinancing needs** (roughly EUR 5.8 bn).

Financial analyst: Juraj Valachy (+421 2 5919 2033), Tatra banka, a.s., Bratislava

EU calls for improvement of the structural deficit

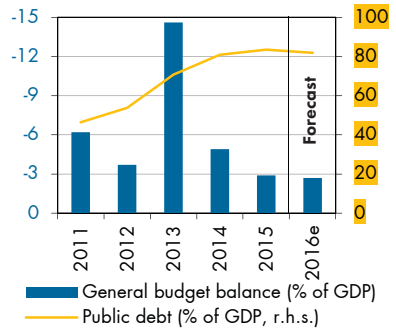
- **Strong economic growth in 2015, some deceleration possible in 2016**
- **Inflation low on energy; annual average inflation for 2016 still expected around zero percent**
- **While government sees headline budget consolidation, EU demands a lower structural deficit**
- **NPL declining after the 2013 clean-up, corporate loans volumes still contracting**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

In Q4 2015, the economy grew strongly with rates of 3.3% yoy or 0.6% qoq, on exports and domestic demand. In 2015, the economy expanded by 2.9% yoy – more than we expected. **However, 2016 growth could decelerate slightly towards 2%** on weaker public investment and lower EU transfers. Slovenia invested almost all available EU funds of EUR 4.1 bn from the 2007-2013 EU budgeting period (which still could be spent in 2015). For the next 7 years, another EUR 3.3 bn of EU funds will be available. Positively, unemployment has fallen to 9.1% in 2015 from 9.7% in 2014, and we see the rate falling further in 2016. Headline inflation remains negative on low energy prices (February CPI of -0.7% yoy), while core inflation is ranging between 0 and 1% yoy. We expect the **inflation rate to rise to around 1% yoy by end-2016**, resulting in average 2016 inflation of 0.2 to 0.3% yoy. The budget deficit came in at -2.9% of GDP in 2015. In 2016, the headline budget deficit might be even a tad lower. However, the **EU currently sees a lack of effort to reduce the structural deficit**, and thus recommended further measures to make the budget consolidation more sustainable. Public debt went slightly up to 83.5% of GDP in 2015, but the government plans to reduce the ratio to 80% of GDP in 2016, which may turn out to be too optimistic. Finally, the trade and current account surpluses reached multi-year peaks of EUR 2 bn and 3 bn, given the successful external adjustment of recent years.
In the banking sector, the indicators show much healthier performance, albeit overall lending activity is still depressed. The improvements come from asset quality, and **NPLs are declining towards low double-digits from their peak of 22% in 2013.** The funding side also shows positive dynamics, with the private deposit base growing and state-related funding declining in the course of 2015. Total bank loan volumes are still on the decline (-6% yoy in 2015), however, as a result of negative corporate lending dynamics (-11% yoy). Retail lending stayed almost steady in 2015, mostly supported by mortgage loans.

Financial analyst: Andreas Schwabe, CFA; RBI Vienna

Key economic figures and forecasts*

	2011	2012	2013	2014	2015	2016e	2017f
Nominal GDP (EUR bn)	36.9	36.0	35.9	37.3	38.6	39.7	41.3
Real GDP (% yoy)	0.7	-2.7	-1.1	3.0	2.9	2.2	2.1
Industrial output (% yoy)	1.3	-1.1	-0.9	2.2	4.5	3.9	4.0
Unemployment rate (avg, %)	8.2	8.9	10.1	9.7	9.1	8.5	8.2
Nominal industrial wages (% yoy)	2.7	3.7	0.5	0.5	1.5	2.0	1.0
Producer prices (avg, % yoy)	3.8	1.0	0.3	-0.7	0.6	1.5	1.0
Consumer prices (avg, % yoy)	1.8	2.6	1.8	0.2	-0.5	0.2	0.9
Consumer prices (eop, % yoy)	2.1	2.7	0.7	0.2	-0.5	1.1	1.0
General budget balance (% of GDP)	-6.2	-3.7	-14.6	-4.9	-2.9	-2.7	-2.5
Public debt (% of GDP)	46.4	53.7	70.8	80.8	83.5	81.9	81.2
Current account balance (% of GDP)	0.2	2.6	5.6	7.0	6.5	5.5	4.8
Gross foreign debt (% of GDP)	112.7	118.9	115.9	124.1	114.8	110.0	104.1

** euro area entry on 1 January 2007*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Solid, sustainable growth still missing

- **Net exports drive economic growth**
- **EU funds pending until mid-2016**
- **Deflation expected to take a step back**
- **Trend of increasing public indebtedness continues**

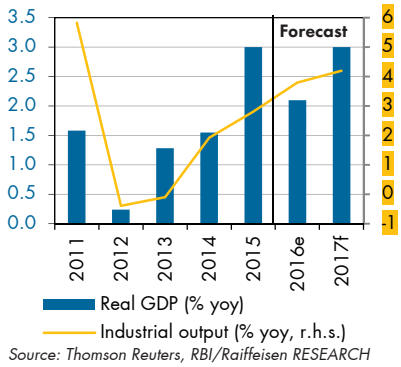
GDP grew beyond expectations, reaching 3.0% yoy in real terms in 2015. As expected, strong external demand was the core GDP driver due to the weak euro. Moreover, low oil prices reduced imports, and net exports turned out to be the strongest growth contributor with 2.1pp. On the side of the weaker domestic demand, both household consumption (0.4pp) and gross fixed capital formation (0.5pp) rose sluggishly. Based on the main scenario that the window for additional ECB easing ends by mid-2016 and the oil market remains oversupplied, a **stronger H1 2016 performance is anticipated with growth of up to around 3.0% yoy**, recapping the 2015 model. In turn, the political set-up in H1 is expected to remain stable, despite some potential party spats within the ruling coalition. However, at the same time, external risks appear more unpredictable and far-reaching (military conflicts, refugee flood, etc.).

Low interest rates are expected to encourage household consumption in H1 up to a point, while investments, tending mostly to rely on subsidised EU financing, might rise just marginally in the context of the ongoing resource intensive asset quality review (AQR) testing in the banking sector. The gross budget deficit for 2016 is planned at 2.5%, unlike the 3.3% target set in fiscal 2015 (actual: 2.9%). Therefore, **public spending will not be able to compensate the shortfall on the EU funds side**. Moreover, corporate bank deposits have been growing strongly in Q1 2016, which makes it quite obvious that domestic companies have rather weak investment opportunities.

The unemployment rate will continue decreasing marginally to levels below 9.0% on average at end-Q2 2016, while the slight ongoing deflationary pressure is expected to ease, as average annual inflation is forecast at around 0.2%. By the end of Q1, EUR 2 bn was issued on the international market, which will be used for financing the budget deficit in 2016 and repaying old debt.

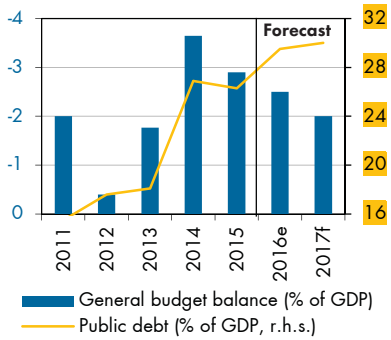
Financial analyst: Emil S. Kalchev, Raiffeisenbank (Bulgaria) EAD, Sofia

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Bloomberg, Raiffeisen RESEARCH

Key economic figures and forecasts

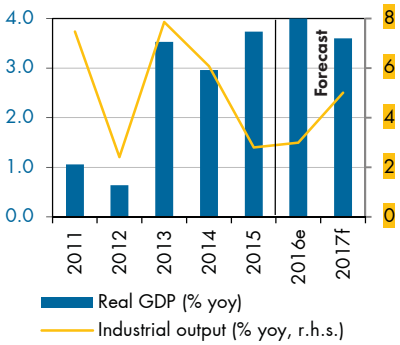
	2011	2012	2013	2014	2015	2016e	2017f
Nominal GDP (EUR bn)	41.0	41.7	41.9	42.7	44.2	45.5	47.9
Real GDP (% yoy)	1.6	0.2	1.3	1.5	3.0	2.1	3.0
Industrial output (% yoy)	5.8	-0.4	-0.1	1.9	2.8	3.8	4.2
Unemployment rate (avg, %)	11.3	12.3	12.9	11.4	9.2	8.4	8.0
Nominal industrial wages (% yoy)	9.6	12.7	0.7	1.5	9.1	7.3	3.0
Producer prices (avg, % yoy)	9.4	4.2	-1.4	-1.2	-1.9	0.4	1.0
Consumer prices (avg, % yoy)	4.2	3.0	0.9	-1.4	-0.1	0.8	2.0
Consumer prices (eop, % yoy)	2.8	4.2	-1.6	-0.9	-0.4	1.1	2.3
General budget balance (% of GDP)	-2.0	-0.4	-1.8	-3.6	-2.9	-2.5	-2.0
Public debt (% of GDP)	15.5	17.6	18.1	26.9	26.3	29.5	30.0
Current account balance (% of GDP)	1.0	-0.2	1.9	1.2	1.1	1.2	-0.5
Official FX reserves (EUR bn)	13.3	15.6	14.4	16.6	20.4	23.5	21.2
Gross foreign debt (% of GDP)	88.6	90.5	88.1	93.1	77.2	76.9	75.1
EUR/BGN (avg)	1.96	1.96	1.96	1.96	1.96	1.96	1.96
USD/BGN (avg)	1.41	1.52	1.47	1.47	1.76	1.78	1.85

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Strong economic growth momentum

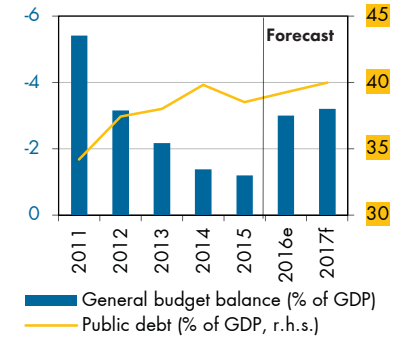
- **Ample fiscal stimulus boosts consumption, but also macroeconomic imbalances**
- **VAT rate cuts temporarily depress inflation rate, otherwise inflationary pressures are not low**
- **Rising money market interest rates to ensure monetary policy tightening as key rate remains flat**
- **Gradual upward trend in RON yields as inflationary and political pressures build up**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

As expected, the solid GDP growth in Q4 2015 (1.1% qoq, 3.7% yoy) was driven by domestic demand, as strong increases were recorded both for private consumption and gross fixed capital formation. In 2015, real GDP excluding agriculture expanded by 4.4%, which was the fastest rate since 2008. **We expect the economy to remain on a sustained upward trend** in the coming quarters and real GDP to increase by 4.0% in 2016. Private consumption should stay at an elevated rate in 2016 (6.0%) as additional stimulus factors are in place: hikes in wages in the public sector from end-2015, the cut in the standard VAT rate to 20% from 24% effective from January 2016, the decline in fuel prices, and a hike of 19% to the minimum wage in the economy due starting in May. Improving business conditions, low interest rates, and fiscal incentives should lure companies to increase investments. So, we continue to foresee rapid growth in gross fixed investments in 2016 (7.0%) after the rate picked up already in 2015. However, the expected lower use of EU funds in 2016 as compared to 2015 suggests that the risks to our forecast could be on the downside. Although the performance of **exports and industry deteriorated visibly in 2015**, we still maintain a positive view on their dynamics in 2016 as negative shocks should decrease in intensity and growth in foreign demand should gradually improve.

The pick-up in economic growth comes hand in hand with **visible increases in macroeconomic imbalances** (public budget deficit, current account deficit). In addition, with **two rounds of elections due this year** (local elections on 5 June and parliamentary elections in Nov-Dec), there are risks that the enforcement of additional fiscal stimulus could increase the vulnerabilities even more than currently estimated. The two major opposing parties (PSD and PNL) are close to each other in terms of public preferences and the winner of the local elections should have an advantage in the parliamentary polls.

Key economic figures and forecasts

	2011	2012	2013	2014	2015	2016e	2017f
Nominal GDP (EUR bn)	133.3	133.5	144.3	150.2	159.8	170.1	186.6
Real GDP (% yoy)	1.1	0.6	3.5	3.0	3.7	4.0	3.6
Industrial output (% yoy)	7.5	2.4	7.9	6.1	2.8	3.0	5.0
Unemployment rate (avg, %)	7.2	6.8	7.1	6.8	6.8	6.5	6.5
Nominal industrial wages (% yoy)	6.7	4.6	4.2	7.4	6.8	7.0	5.4
Producer prices (avg, % yoy)	7.1	5.4	2.1	-0.1	-2.2	-0.4	2.8
Consumer prices (avg, % yoy)	5.8	3.3	4.0	1.1	-0.6	-0.5	2.7
Consumer prices (eop, % yoy)	3.1	5.0	1.6	0.8	-0.9	1.5	2.8
General budget balance (% of GDP)	-5.4	-3.2	-2.2	-1.4	-1.2	-3.0	-3.2
Public debt (% of GDP)	34.2	37.4	38.0	39.8	38.5	39.3	40.0
Current account balance (% of GDP)	-4.9	-4.8	-1.1	-0.5	-1.1	-2.5	-3.3
Official FX reserves (EUR bn)	37.1	35.4	35.4	35.7	35.6	36.4	37.6
Gross foreign debt (% of GDP)	75.0	75.5	68.0	63.1	56.9	55.2	53.6
EUR/RON (avg)	4.24	4.46	4.42	4.44	4.45	4.45	4.35
USD/RON (avg)	3.05	3.47	3.33	3.35	4.01	4.05	4.10

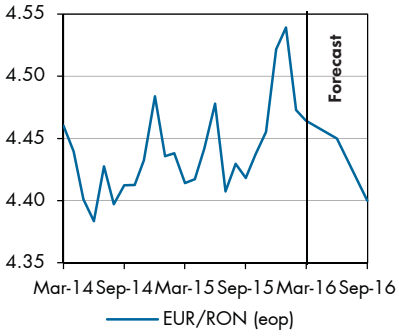
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Financial market outlook

Following the cut of standard VAT rate to 20% from 24% at the beginning of January, the annual inflation rate plunged deeply to negative territory (-2.7% yoy in Feb). **Inflation should return to positive territory in June**, but will remain at a low level until December (1.5% yoy in our baseline), due to the favourable statistical base effect fuelled by the cut to the VAT rate in January. However, underlying inflationary pressures are not so low, as the annual inflation rate was somewhere between 1.5-2.0% yoy in Q1 2016 when adjusting for the negative contribution of the two VAT rate cuts (Jun-2015, Jan-2016). The rapid advance of domestic demand and the dissipation of the favourable statistical base effect related to imported inflation should result in stronger inflationary pressures in the following quarters. As a result, we foresee the annual inflation rate jumping to nearly 2.5% in Q1 2017 when the favourable statistical base effect related to the VAT rate cuts dissipates in full. The central bank is aware of the currently not-so-low underlying inflationary pressures and its most recent inflation forecast (from February) implies a more rapidly deteriorating inflation outlook as compared with our expectations. Several central bank officials had hawkish remarks, saying that the monetary policy stance should be tightened sooner rather than later. We expect the central bank to keep the monetary policy rate unchanged at 1.75% until Q2 2017, while **tightening the monetary policy stance would consist of an increase in money market interest rates**. In Q1 2016, these rates were at very low levels, far below the key rate, because the central bank did not sterilise the liquidity surplus from the money market that was fuelled by a hike in public expenses at the end of 2015. The liquidity surplus started to decrease and we expect the downward trend to continue in the following period, resulting in higher levels of market rates. In H2 2016, in response to mounting inflationary pressures and increasing macroeconomic imbalances, the NBR might start to sterilise the liquidity surplus and raise the interest rate for the deposit facility. We expect **yields on RON government securities to embark on a gradual upward trend starting in Q2** as a result of the tightening of the monetary policy stance, election-related uncertainty, and the increase (albeit moderate) in core market yields. Higher levels of domestic interest rates and yields should also offer support to the **leu which might appreciate versus the euro**. The outlook for the financial markets includes more and more risks stemming from the domestic side, including a pro-cyclical fiscal policy that results in an increase of macroeconomic imbalances, elections, and legislative initiatives with a negative impact on the banking system.

Financial analyst: Nicolae Covrig, Raiffeisen BANK S.A., Bucharest

Exchange rate development



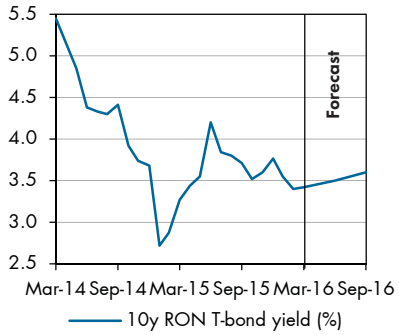
EUR/RON: 5y high 4.64, 5y low 4.07
Source: Thomson Reuters, Raiffeisen RESEARCH

Exchange rate forecasts

	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
EUR/RON	4.46	4.45	4.40	4.40	4.38
Cons.		*4.48*	*4.46*	*4.45*	*4.44*
USD/RON	3.99	4.05	4.00	4.19	4.33
Cons.		*4.16*	*4.24*	*4.26*	*4.19*

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

RON yield development (%)



10y RON T-bond yield: 5y high 7.9, 5y low 2.66
Source: Thomson Reuters, Raiffeisen RESEARCH

Interest rate forecasts (%)

	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
Key rate	1.75	1.75	1.75	1.75	1.75
Consensus		*1.75*	*1.75*	*1.85*	*2.05*
1 month[2]	0.56	0.90	1.30	1.50	1.70
3 month[2]	0.80	1.10	1.40	1.60	1.75
Consensus		*1.09*	*1.28*	*1.49*	*1.95*
6 month[2]	1.03	1.30	1.50	1.65	1.80
12 month[2]	1.19	1.40	1.60	1.70	1.85

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

Yield forecasts (%)

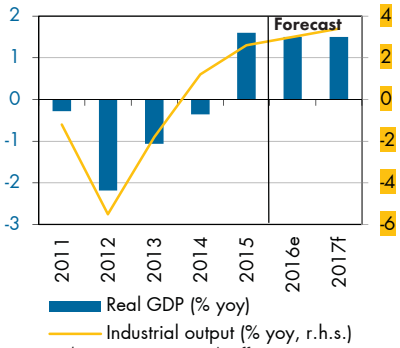
	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
3y T-bond[2]	1.78	2.0	2.1	2.3	2.5
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*
10y T-bond[2]	3.42	3.5	3.6	3.8	3.9
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*

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

Long way to a sustainable recovery

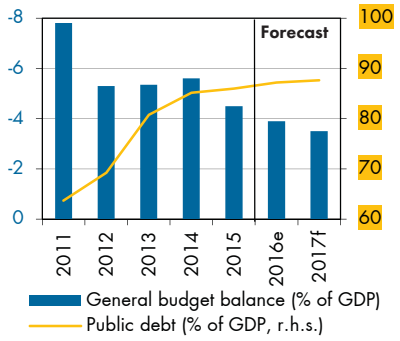
- **Structural measures as a priority of the new government**
- **2016 budget proposal: ambitious, but not unreachable**
- **EUR/HRK on a downward path**
- **Depressed yields, but risks remain**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

The focus remains firmly on the need for fiscal consolidation and structural measures to ensure a sustainable recovery and an increase in potential GDP growth, which is estimated at an extremely low level (around 1%). **The government has adopted the 2016 budget, envisaging a lower general government deficit of 3% of GDP** and ensuring stabilisation of public debt close to 87% as early as this year. Though it may seem ambitious, it is not unreachable, as the budget goals mostly rely on the revenue side (and what we view as a slightly optimistic growth estimate), while the stabilisation of public debt is associated with privatisation of the remaining state portfolio. The crucial issues (such as public sector inefficiency, further restructuring of public enterprises, reform of the healthcare and education system, etc.) must still be solved with structural measures, which are to be elaborated in the upcoming convergence and national reform programme. Risks closely linked to the implementation of such measures continue to threaten both debt sustainability and a stable recovery.

A strong impetus continues to come from tourism, as the pre-season started earlier this year, thus positively influencing the rest of the economy including an earlier start of the employment cycle and purchasing power of households. Although there may not be many significant structural changes, **cyclical factors and the lack of any inflationary pressures will continue to boost consumer optimism**. Due to the strong dependence of domestic demand on imports, even with further improvements in the export of goods, the net contribution of foreign demand could be somewhat lower. Finally, gross fixed capital formation depends strongly on public sector and EU funds, and for stronger private sector activity to develop, we will need to see a more friendly business environment in Croatia.

Key economic figures and forecasts

	2011	2012	2013	2014	2015	2016e	2017f
Nominal GDP (EUR bn)	44.7	44.0	43.5	43.0	43.9	44.9	46.1
Real GDP (% yoy)	-0.3	-2.2	-1.1	-0.4	1.6	1.5	1.5
Industrial output (% yoy)	-1.2	-5.5	-1.8	1.2	2.6	3.0	3.4
Unemployment rate (avg, %)	13.7	15.9	17.4	17.3	16.6	16.2	15.8
Nominal industrial wages (% yoy)	1.3	1.9	1.7	1.5	1.5	1.5	1.5
Producer prices (avg, % yoy)	6.4	7.0	0.5	-2.7	-3.9	-2.0	2.2
Consumer prices (avg, % yoy)	2.3	3.4	2.2	-0.2	-0.5	0.0	1.5
Consumer prices (eop, % yoy)	2.1	4.7	0.3	-0.5	-0.6	0.7	1.6
General budget balance (% of GDP)	-7.8	-5.3	-5.4	-5.6	-4.5	-3.9	-3.5
Public debt (% of GDP)	63.7	69.2	80.8	85.1	86.0	87.2	87.6
Current account balance (% of GDP)	-0.7	0.0	1.0	0.8	4.7	2.0	2.2
Official FX reserves (EUR bn)	11.2	11.2	12.9	12.7	13.8	13.5	13.0
Gross foreign debt (% of GDP)	103.7	103.0	105.7	108.5	108.2	108.0	108.5
EUR/HRK (avg)	7.43	7.52	7.58	7.63	7.61	7.59	7.62
USD/HRK (avg)	5.35	5.85	5.71	5.76	6.86	6.90	7.19

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Financial market outlook

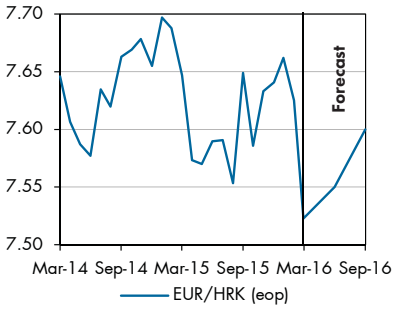
EUR/HRK showed extremely low volatility, but also a slight but steady downward movement connected to the mild economic recovery and foreign currency (FCY) inflows. HRK found support in the pre-holiday spending (Easter) and the earlier beginning of the low tourist season. Uneventful FX trading and a lack of any depreciation fears provided a more comfortable floor for the accommodative monetary policy and long-term refinancing operations (LTRO) that the Croatian National Bank (CNB) introduced for the first time ever. Still, due to the subdued loan demand, the final outcome of the first LTRO was rather unimpressive, underlining the limitations of monetary policy in reviving economic activity, especially in Croatia where deep-seated structural constraints must be tackled with structural measures.

That said, ensuring high HRK liquidity in the domestic financial market has enabled low interest rates on the money market, but also at the shorter-end of the HRK sovereign curve. Furthermore, **long-term monetary operations are intented on creating pressure at the longer end of the local sovereign curve**, thus opening up additional room for implementing the necessary fiscal consolidation measures which would surely support the domestic currency in the medium term. Fiscal risks and a return to recession would definitely have a negative impact on HRK. However, for the time being such a scenario is not likely. On the contrary, **HRK should be exposed to slight but steady appreciation pressures as the main tourist season approaches**, additionally supported by the possible FCY inflows (through EU funds, FDIs and corporate sector borrowing on foreign capital markets). Furthermore, the central bank remains strongly and unquestionably committed to the policy of FX stability.

In the meantime, yields along the curve remain depressed, whereas the shorter-end of the curve even saw a decline. Considering the overall economic and financial market environment, we do not see any significant changes in either direction. As for primary market activities, the Ministry of Finance has already tapped the existing 2026 HRK bond, issuing HRK 4 bn (yield to maturity 3.99%). Given that the total bond issuance plan envisages an amount of HRK 17.7 bn, we expect the Eurobond issuance before the summer in the amount of at least EUR 1.5 bn. The unconventional ECB policy and low interest rate environment on the one hand, and the relatively attractive returns on Croatian paper on the other point to solid investor interest. Still, the rating two notches below investment grade and a negative outlook clearly reflect all of the uncertainty related to Croatia's fiscal metrics and growth outlook.

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

Exchange rate development



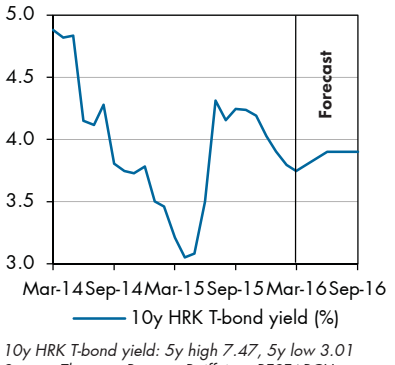
EUR/HRK: 5y high 7.72, 5y low 7.34
Source: Thomson Reuters, Raiffeisen RESEARCH

Exchange rate forecasts

	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
EUR/HRK	7.52	7.55	7.60	7.65	7.62
Cons.		*7.65*	*7.66*	*7.66*	*7.67*
USD/HRK	6.73	6.86	6.91	7.29	7.54
Cons.		*7.08*	*7.10*	*7.12*	*7.13*

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

HRK yield development (%)



10y HRK T-bond yield: 5y high 7.47, 5y low 3.01
Source: Thomson Reuters, Raiffeisen RESEARCH

Interest rate forecasts (%)

	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
1 month[2]	0.64	0.50	0.60	0.50	0.60
3 month[2]	0.83	0.85	0.90	0.90	1.00
Consensus		*1.49*	*1.64*	*1.65*	*1.85*
6 month[2]	1.04	1.10	1.15	1.10	1.20
12 month[2]	1.39	1.50	1.55	1.50	1.60

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

Yield forecasts (%)

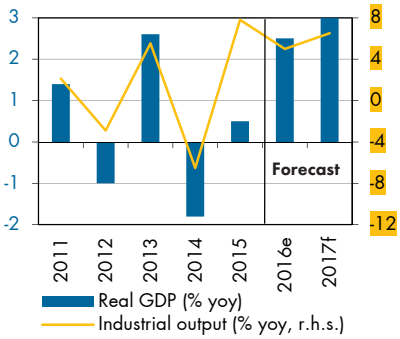
	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
3y T-bond	1.87	2.5	2.5	2.6	2.6
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*
10y T-bond	3.75	3.9	3.9	3.9	4.0
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*

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

Early parliamentary elections after all

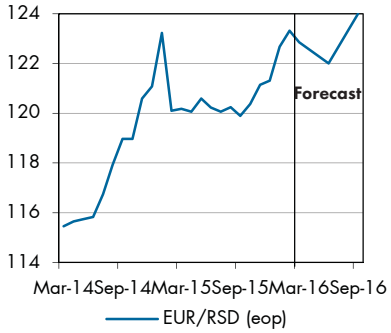
- **Fourth IMF review to be wrapped up after the new cabinet is formed**
- **Ultra-loose monetary policy on the table**
- **Reform delays leave RSD yields flat, EUR yields falling**
- **Robust FX interventions to be curtailed after new cabinet is set up**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Exchange rate development



EUR/RSD: 5y high 123.67, 5y low 96.6
Source: Bloomberg, Raiffeisen RESEARCH

Maintaining continuity in the execution of public sector reforms and the EU accession negotiations were the triggers for holding the second early parliamentary elections (on 24 April 2016). According to surveys, **the leading Serbian Progressive Party (SNS) has high chances of winning a majority** (49.4%). While we do not doubt the commitment of the new cabinet (expected to be formed at the end of May) to reforms, we are anxious about whether or not the reforms will be partially delayed again for 2017, posing a risk to meeting the planned 3.7% budget deficit/GDP. This will be decisive for non-residents to return to the market, after they pulled out in Q1. Weak appetite for the shorter-dated RSD-denominated T-bills will persist in Q2, contrary to interest in the EUR-denominated paper. Flat RSD yields and falling EUR yields will also prevail. EUR/RSD may stay at weak levels in Q2, due to a continuation of the loose monetary policy (supported by extremely low inflation, with at least one more cut in the pipeline), the global market jitters and increased fiscal risks, although sentiment should stabilise after the new cabinet is formed. The fifth International Monetary Fund (IMF) review will focus on the restructuring of systemically important public companies (the electric power producer EPS, the railway company Zeleznice and the gas distributor Srbijagas).

Following the rating outlook upgrade from stable to positive in December 2015 by Fitch and in January 2016 by Standard & Poor's, **Moody's Investors Service affirmed the B1 rating and upgraded the country's outlook from stable to positive**.If the budget deficit reaches the targeted 3.7% in 2016 and is cut further in 2017, leading to stabilisation in public debt growth, we might expect Fitch to be the first rating agency to upgrade the country's B+ rating by one notch at the end of 2017. The Moody's action sends a positive signal to investors and if the new cabinet speeds up reforms, we might see rising investments (supportive for the recovery in private spending) and finally the economy could follow this path.

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

Key economic figures and forecasts

	2011	2012	2013	2014	2015	2016e	2017f
Nominal GDP (EUR bn)	33.4	31.7	34.3	33.1	33.3	34.9	36.9
Real GDP (% yoy)	1.4	-1.0	2.6	-1.8	0.5	2.5	3.0
Industrial output (% yoy)	2.1	-2.9	5.5	-6.5	8.2	5.0	6.5
Unemployment rate (avg, %)	23.0	23.9	22.1	20.1	17.9	20.0	22.0
Nominal industrial wages (% yoy)	5.0	1.5	1.5	4.0	2.9	4.0	4.0
Producer prices (avg, % yoy)	14.2	5.6	3.6	1.3	2.0	3.0	3.5
Consumer prices (avg, % yoy)	11.3	7.8	7.8	2.9	1.4	2.1	2.5
Consumer prices (eop, % yoy)	7.0	12.2	2.2	1.7	1.5	2.5	2.8
General budget balance (% of GDP)	-4.8	-6.8	-5.5	-6.6	-3.7	-3.7	-3.0
Public debt (% of GDP)	44.2	55.9	58.8	68.8	74.7	78.5	81.3
Current account balance (% of GDP)	-8.6	-11.5	-6.1	-6.0	-4.6	-5.2	-5.7
Official FX reserves (EUR bn)	12.0	10.9	11.2	10.0	10.4	11.4	13.0
Gross foreign debt (% of GDP)	72.2	81.1	75.4	78.6	81.6	80.6	79.4
EUR/RSD (avg)	102.0	113.0	113.1	117.3	120.7	123.2	125.4
USD/RSD (avg)	73.3	88.0	85.2	88.5	108.8	112.0	118.3

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

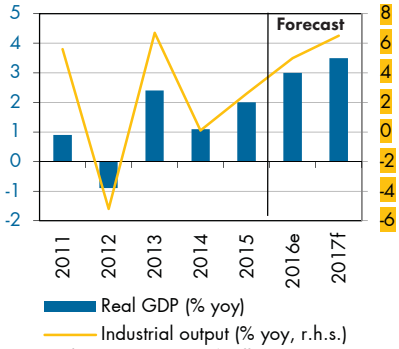
Optimistic outlook for 2016, despite a fragile beginning to the year

- **Expectations for the signing of a new Stand-by Agreement with the IMF**
- **Weak beginning of the year probably just a dent**
- **Real GDP expansion by 3.0% yoy remains our baseline scenario**
- **Political developments will mostly shape economic dynamics in 2016**

On 15 February 2016, Bosnia and Herzegovina formally submitted an application to join the European Union. Even though the political leaders described this decision as "historic", we feel that it should not be ascribed such major importance as the success of the application is still in question. The beginning of the year featured declines in most key macroeconomic indicators. Industry and exports were the weakest links in economic performance, declining by 7.3% yoy and by 3.3% yoy in the first month of 2016, respectively. However, for the time being we assume that the fragile beginning to the year was nothing but a dent and that **the B&H economy will strengthen in the course of the year**. While the signing of the new Stand-by Agreement (SBA) with the IMF was announced for the end of Q1 2016 such announcements proved to be optimistic. The new scenario for the SBA worth BAM one billion is May 2016, as B&H authorities still have several IMF conditions to fulfil. With the new SBA, we expect that the consolidated general government deficit will narrow to 2.0% of GDP in 2016, and to 1.0% in 2017. As for overall real GDP dynamics, an increase of 3.0% yoy in 2016 remains our baseline scenario. We expect **gross investments (7.5% yoy), exports (6.5% yoy) and household consumption (2.5% yoy) to drive economic growth.** Exports should continue to benefit from the positive dynamics in the euro area, especially in Germany which is the main trading partner for B&H, while gross investments are mostly related to the energy sector (several agreements for construction of the thermal/hydro power plans have already been signed). The anticipated decline in the unemployment rate (to 26.0% in 2016) accompanied by moderate growth in net wages and disposable income should keep private consumption in a positive range in 2016. The main risk to our baseline scenario stems from political developments as positive assessments regarding the new SBA, structural reforms, and investments are solely based on political stability.

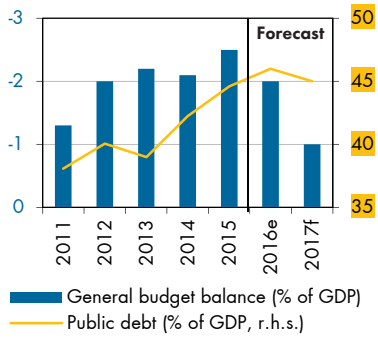
Financial analyst: Srebrenko Fatušić, Raiffeisen Bank d.d., Sarajevo

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

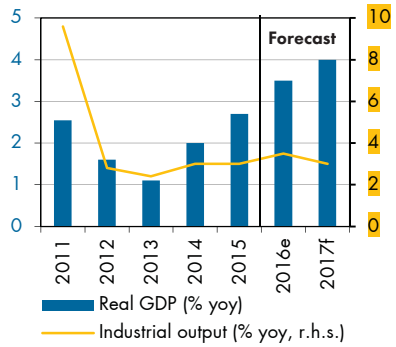
	2011	2012	2013	2014	2015	2016e	2017f
Nominal GDP (EUR bn)	13.4	13.4	13.7	13.9	14.3	15.1	16.0
Real GDP (% yoy)	0.9	-0.9	2.4	1.1	2.0	3.0	3.5
Industrial output (% yoy)	5.6	-5.2	6.7	0.1	2.6	5.0	6.5
Unemployment rate (avg, %)	27.6	28.0	27.5	27.5	27.7	26.0	25.0
Nominal industrial wages (% yoy)	6.8	2.2	-0.5	0.3	0.0	3.0	5.0
Producer prices (avg, % yoy)	3.8	1.3	-2.2	-0.2	0.6	1.5	2.5
Consumer prices (avg, % yoy)	3.7	2.1	-0.1	-0.9	-1.0	0.5	1.5
Consumer prices (eop, % yoy)	3.1	1.8	-1.2	0.0	-1.3	1.5	2.0
General budget balance (% of GDP)	-1.3	-2.0	-2.2	-2.1	-2.5	-2.0	-1.0
Public debt (% of GDP)	38.1	40.0	39.0	42.2	44.6	46.0	45.0
Current account balance (% of GDP)	-9.6	-9.1	-5.9	-7.6	-7.0	-7.6	-8.1
Official FX reserves (EUR bn)	3.3	3.3	3.6	4.0	4.4	4.5	4.7
Gross foreign debt (% of GDP)	48.9	52.2	52.2	51.9	54.6	55.1	54.9
EUR/BAM (avg)	1.96	1.96	1.96	1.96	1.96	1.96	1.96
USD/BAM (avg)	1.41	1.52	1.47	1.47	1.76	1.78	1.85

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Making home tidy

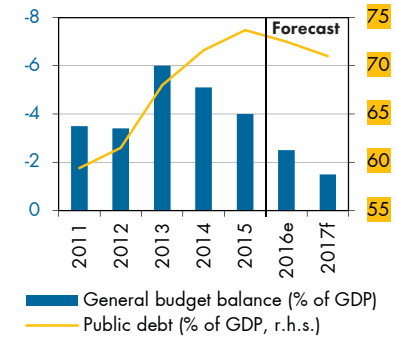
- **Business cycle to gain momentum**
- **Foreign direct investments in large energy-related projects to increase**
- **Monetary policy easing expected to continue**
- **Rating upgrade by S&P from B to B+ with stable outlook**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

In 2015, the Albanian economy posted the best growth in the last four years, with a rate of around 2.7%. However, this growth is far below the potential level, which is at least 4%. The main sectors contributing to the acceleration were construction and services. In 2016, the **economic recovery is expected to strengthen to around 3.5%**, driven by continued FDI and rising domestic demand, and supported by a gradual pick-up in bank lending. The annual inflation rate dropped to just 0.2% in February 2016, indicating a further deceleration in inflation and raising worries about deflation. However, this low level might be temporary as it is related to a large extent to the February 2015 floods that raised consumer prices much higher than the average. We would expect the 2016 average inflation rate at around 1.8%, as most of it is imported from the slump in commodities prices on international markets and also from the fact that the economy is growing below potential. Therefore, the accommodative monetary policy is expected to continue and another rate cut (to 1.50%) in the second part of the year is possible, in order to further ease monetary policy.

The government is committed to continuing the consolidation of public finances and reducing public debt to less than 60% of GDP by 2019 from about 73% in 2015. Broadening the tax base, improving tax compliance, and increasing expenditure savings through structural reforms will support the improvement in debt indicators in the years ahead. The budget deficit is expected to be narrowed to around 2.2% of GDP by the end of 2016 as the decrease in capital investments should continue during the year.

The latest **S&P rating upgrade of Albania's sovereign debt from B to B+ with a stable outlook**, the positive performance under the IMF programme so far and the expected approval of the judiciary reform in H1 2016 should help improve investor sentiment.

Financial analyst: Valbona Gjeka, Raiffeisen Bank Sh.a., Tirana

Key economic figures and forecasts

	2011	2012	2013	2014	2015	2016e	2017f
Nominal GDP (EUR bn)	9.3	9.6	9.7	10.2	10.9	11.7	12.5
Real GDP (% yoy)	2.6	1.6	1.1	2.0	2.7	3.5	4.0
Industrial output (% yoy)	9.6	2.8	2.4	3.0	3.0	3.5	3.0
Unemployment rate (avg, %)	14.0	13.3	17.0	18.0	17.0	15.0	13.0
Nominal industrial wages (% yoy)	8.0	8.0	8.0	8.0	8.0	3.0	1.9
Producer prices (avg, % yoy)	2.6	1.1	-0.4	-0.5	1.0	2.0	2.0
Consumer prices (avg, % yoy)	3.5	2.0	1.9	1.6	1.8	1.8	2.2
Consumer prices (eop, % yoy)	1.7	2.4	1.9	0.7	1.9	2.0	2.5
General budget balance (% of GDP)	-3.5	-3.4	-6.0	-5.1	-4.0	-2.5	-1.5
Public debt (% of GDP)	59.4	61.5	68.0	71.6	73.7	72.5	71.0
Current account balance (% of GDP)	-11.9	-9.4	-10.5	-12.6	-12.9	-12.8	-13.6
Official FX reserves (EUR bn)	1.9	2.0	2.0	2.2	2.9	2.2	2.2
Gross foreign debt (% of GDP)	53.5	57.4	65.5	67.7	68.9	67.5	64.7
EUR/ALL (avg)	140.4	139.0	140.3	140.0	139.7	138.2	138.3
USD/ALL (avg)	100.9	108.2	105.7	105.5	126.0	125.6	130.5

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Cautious outlook for further economic development

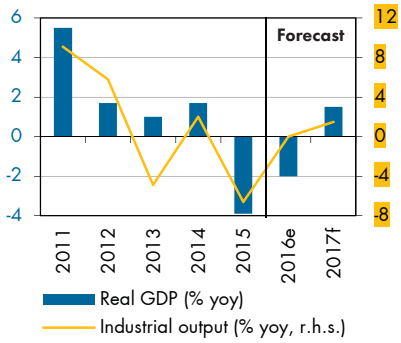
- **Sharp GDP decline influenced by negative performance of main components**
- **Inflation fuelled by administrative regulation of utilities prices**
- **BYR exchange rate fluctuations in line with RUB volatility**
- **Disciplined payments on external debt provided by refinancing in the internal market**

The **negative GDP performance (-4% yoy in Jan-Feb)** is based on the lack of growth in almost all of the previously supportive factors, except for net exports. Households' low willingness to consume persists amidst a contraction in real income (-5.9% yoy in 2015), industrial output is declining (-5.6% yoy) due to fading foreign demand, and investment remains deep in the red (-24% yoy). **Domestic demand is expected to continue stagnating**, while export performance will mostly depend on Russian economic activity. In 2015, imports contracted more than exports (-25.4% yoy vs. -24.2% yoy) leading to a positive trade balance for goods and services. The **C/A deficit narrowed** strongly, shrinking from USD 5.2 bn (6.9% of GDP) in 2014 to USD 2.1 bn (3.8% of GDP) in 2015. Inflation remains in low double-digit figures. Given the utilities price hike in early 2016, CPI amounted to 4.8% ytd (12.1% yoy) in the first two months of this year, but we do not expect inflation higher than 15% this year.

After a period of depreciation in 2015, some **elevated volatility has been seen recently for BYR, which closely correlates with the Russian rouble** development. On the monetary side, the situation in the internal FX market is still fragile amidst the ongoing outflow of LCY deposits and interest rate sensitive behaviour. **FX reserves remain at a low level of USD 4.1 bn** (1.5 months of import coverage) as a result of external debt redemptions. However, a more profound drop has been avoided due to a number of bond placements in the internal market. Further movements in BYR will closely correlate with oil price and RUB exchange rate developments, as well as possible external financing support. All in all, **we project the depreciation trend for BYR to continue over the coming years**, albeit with strongly varying magnitude of volatility. But as the Western sanctions against the country have finally been lifted, the chances of Belarus securing new financing have improved somewhat. Additionally there will be a redenomination of the Belarus rouble from 1 July 2016 (removing four zeros).

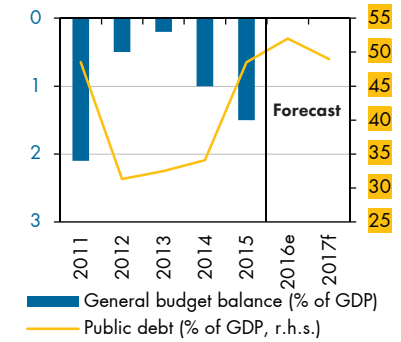
Financial analyst: Mariya Keda, Priorbank Open Joint-Stock Company, Minsk

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

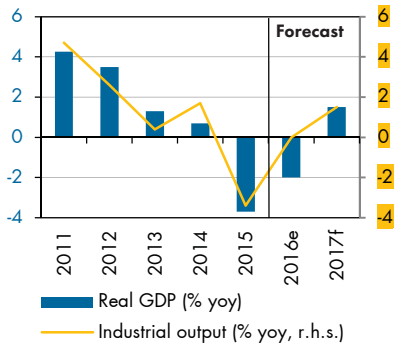
	2011	2012	2013	2014	2015	2016e	2017f
Nominal GDP (EUR bn)	41.2	49.4	54.9	57.2	49.1	38.6	41.4
Real GDP (% yoy)	5.5	1.7	1.0	1.7	-3.9	-2.0	1.5
Industrial output (% yoy)	9.1	5.8	-4.9	2.0	-6.6	0.0	1.5
Unemployment rate (avg, %)	0.6	0.5	0.5	0.5	1.0	1.5	2.0
Nominal industrial wages (% yoy)	59.2	93.8	35.2	20.1	7.6	8.0	10.0
Producer prices (avg, % yoy)	71.4	76.0	13.6	12.8	16.8	12.0	10.0
Consumer prices (avg, % yoy)	53.2	59.2	18.3	18.1	13.5	16.0	16.0
Consumer prices (eop, % yoy)	108.7	21.8	16.5	16.2	12.0	15.0	15.0
General budget balance (% of GDP)	2.1	0.5	0.2	1.0	1.5	0.0	0.0
Public debt (% of GDP)	48.5	31.3	32.5	34.1	48.5	52.0	49.0
Current account balance (% of GDP)	-9.0	-2.8	-10.0	-6.8	-3.9	-6.4	-6.4
Official FX reserves (EUR bn)	6.1	6.1	4.8	4.2	3.8	4.0	3.8
Gross foreign debt (% of GDP)	63.7	51.9	51.8	52.6	70.3	84.8	79.7
EUR/BYR (avg)	7220	10747	11834	13597	17706	25627	28090
USD/BYR (avg)	5218	8360	8906	10250	15964	23297	26500

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Another year of recession, cautious outlook for rouble markets

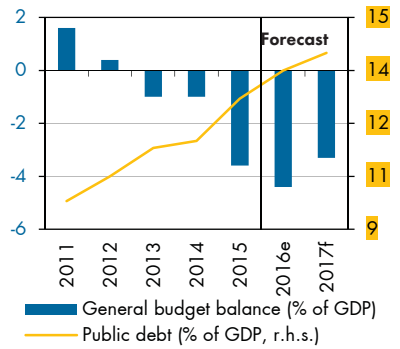
- **Recession prolonged into 2016 – longest contraction since mid-1990s**
- **CBR still hawkish for now due to high inflation risks, but 100bp in key rate cuts in H2 expected**
- **Further Q2 RUB appreciation threatened by unfavourable seasonality and possible oil correction**
- **Dovish global central bank backdrop fuelled OFZ rally, limiting room for further yield drops in the short run**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

Substantial oil price decline until January 2016 undermined the prospects of the Russian economy for this year. Due to a more negative oil outlook of around USD 40/bbl we revised the GDP forecast from 0% to -2% yoy. Thus, we expect that the recession will continue for at least two years and be longer compared to the previous crises in 1998 and 2009. However, on a positive note, **the fall in industrial production in mom terms stopped in early 2016** and we expect this tendency to become sustainable. RUB weakening supported industrial production in general, although certain consumer industries (such as passenger car production), investment goods production, and construction were hurt. But the largest positive effect is seen in export-related segments (chemicals, mining, etc.) and those industries where import substitution is increasing based on sanctions and price competiveness (e.g. food production). At the same time, **consumption metrics continue to deteriorate** which is not surprising given the weak RUB, negative real wage growth, and constrained budget spending. In order to limit the budget deficit, the government has postponed the indexation of wages and cut investment spending. Under such circumstances, capital investment is set to decline in 2016. In Q1 2016, CPI yoy started to drop dramatically mostly due to high base effect. As of mid-March it fell below 8% yoy compared to 12.9% at year-end 2015. Moreover, we see that price growth has decelerated in mom terms, which is driven by the recent U-turn in RUB dynamics. However, FX risks are still high and thus **positive developments in CPI do not look sustainable to us yet**. The CBR also does not see many reasons for too much optimism at the moment and does not intend to cut the key rate in the coming months. **We expect the CBR to resume the rate-cutting cycle in H2** with rather moderate cuts (two moves by 50bp in Q3 and Q4). At the same time, if the oil price recovery turns out to be faster or happens earlier than we now expect, the inflation trajectory will be more favourable and the CBR could speed up the pace of monetary easing.

Key economic figures and forecasts

	2011	2012	2013	2014	2015	2016e	2017f
Nominal GDP (EUR bn)	1460.4	1677.1	1678.8	1526.1	1182.4	1063.8	1260.5
Real GDP (% yoy)	4.3	3.5	1.3	0.7	-3.7	-2.0	1.5
Industrial output (% yoy)	4.7	2.6	0.4	1.7	-3.4	0.0	1.5
Unemployment rate (avg, %)	6.5	5.5	5.5	5.1	5.6	6.5	6.0
Average gross wages (% yoy)	11.5	13.9	11.9	9.1	4.4	4.0	6.0
Producer prices (avg, % yoy)	12.0	5.1	3.7	5.9	13.0	9.0	7.5
Consumer prices (avg, % yoy)	8.5	5.1	6.8	7.8	15.6	8.4	7.9
Consumer prices (eop, % yoy)	6.1	6.6	6.5	11.4	12.9	8.5	7.5
General budget balance (% of GDP)	1.6	0.4	-1.0	-1.0	-3.6	-4.4	-3.3
Public debt (% of GDP)	9.8	10.5	11.3	11.5	12.7	13.5	14.0
Current account balance (% of GDP)	4.8	3.3	1.5	3.2	5.0	4.2	4.6
Official FX reserves (EUR bn)	384.1	407.8	369.8	318.5	339.1	352.4	339.3
Gross foreign debt (% of GDP)	26.5	29.5	32.7	29.5	39.3	40.2	32.2
EUR/RUB (avg)	40.9	39.9	42.3	51.0	68.0	77.8	70.0
USD/RUB (avg)	29.4	31.1	31.9	38.6	61.3	70.7	66.0

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

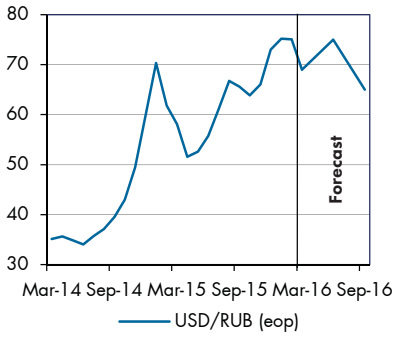
Financial market outlook

After the sharp fall in second half of January (below USD 28/bbl Brent), the oil price recovery in March led to significant RUB appreciation from above RUB 80 to below RUB 70. In addition to oil seasonality, another factor became supportive for RUB, i.e. Q1 accounts for the largest C/A surplus. This was the same factor as in Q1 2015 when we saw rouble appreciation with a strong correction following afterwards. According to our BoP model, USD at RUB 64-72 looks fairly priced with oil at USD 40-45 per bbl. Thus, additional RUB appreciation is justified only in the case of a further oil recovery. Given that we forecast a **renewed decline in the oil price for Q2, we expect RUB depreciation towards RUB 75 per USD.** From a fundamental point of view, the catalysts may be fruitless talks of oil-producing countries scheduled for April, as well as a possible increase in US oil production. From a technical point of view, the USD/RUB is already close to the 200-day moving average (RUB 67), the strong supportive line. A strong move below this seems unlikely at least in the short term. In its last press release, the CBR pointed out the risk of a renewed fall in the oil price (in the baseline case, regulators expect URALS bbl to average USD 30 for 2016) and RUB depreciation as factors constraining monetary easing going forward.

In March 2016, fixed coupon **OFZs rallied quickly to recover from the losses suffered in January** (10y paper fell below yield to maturity 9%, a minimum not seen since mid-2014). In comparison even with the CBR deposit rate (10% p.a.), the current OFZ yield curve looks too tight. It assumes 1) aggressive rate cuts in the near future (at least 100bp), and 2) a drop in RUONIA down to the deposit rate due to growing excess of RUB liquidity as a result of the budget deficit. Apparently, the rally was triggered not only by local banks, but also by foreigners. Dovish Fed and ECB biases lowered expectations of a stronger USD, which increased appetite for all EM local debt, including very high-yielding OFZs. Ongoing demand from non-residents should cushion the unfavorable effects assumed for our Q2-scenario somewhat, so only a **moderate upward correction in yields should be in the pipeline**. Local banks would in such a scenario be in no hurry to take profits (and to switch, for example, into a deposit with the CBR), which creates a certain lack of paper on the market. With expected rate cuts materialising on easing price pressures in Q3, OFZ market attractiveness should be lifted in the longer run anew. Strong liquidity absorption by the CBR or higher-than-expected OFZ issuance, at the same time, is the major local risks to this call. Any deeper correction in oil prices is of course the key risk from the external side.

Financial analysts: Anton Pletenev, Denis Poryvay, AO Raiffeisenbank, Moscow

Exchange rate development



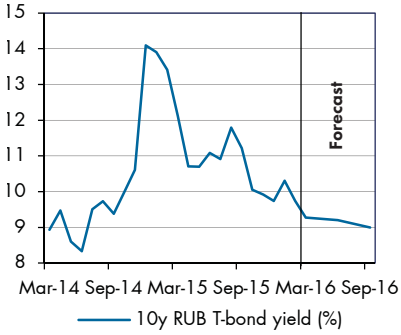
USD/RUB: 5y high 84.24, 5y low 27.29
Source: Thomson Reuters, Raiffeisen RESEARCH

Exchange rate forecasts

	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
EUR/RUB	77.19	82.5	71.5	70.4	67.7
Cons.		*80.3*	*79.9*	*79.4*	*79.0*
USD/RUB	69.01	75.0	65.0	67.0	67.0
Cons.		*72.9*	*72.0*	*72.0*	*71.0*

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

RUB yield development (%)



10y RUB T-bond yield: 5y high 16.24, 5y low 6.44
Source: Thomson Reuters, Raiffeisen RESEARCH

Interest rate forecasts (%)

	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
Key rate	11.00	11.00	10.50	10.00	9.00
Consensus		*10.8*	*10.1*	*9.5*	*8.9*
1 month[2]	11.59	11.40	10.90	10.30	9.30
3 month[2]	11.76	11.70	11.30	10.80	9.80
		n.v.	n.v.	n.v.	n.v.
6 month[2]					
12 month[2]	11.98	11.90	11.80	11.40	10.40

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

Yield forecasts (%)

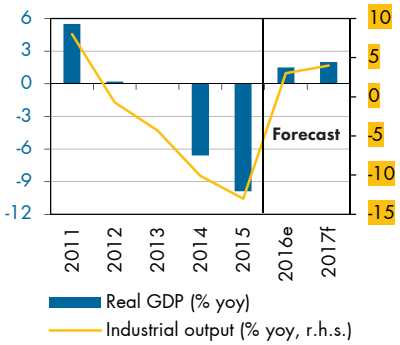
	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
2y T-bond[2]	9.36	9.50	9.30	9.00	8.60
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*
10y T-bond[2]	9.27	9.20	9.00	8.80	8.50
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*

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

Economy shows signs of life amidst political chaos

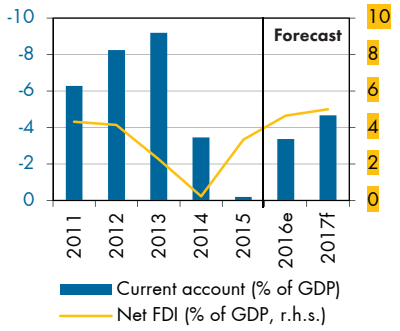
- **Political crisis and infighting further delays IMF support; raises uncertainty regarding reforms**
- **After bottoming out in 2015, modest economic recovery expected for 2016**
- **Deterioration of trade balance as well as political volatility to prevent easing of FX capital controls in 2016**
- **UAH to continue to depreciate moderately in the baseline scenario**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Current account and FDI inflows



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Political outlook

In February/March, another **political crisis arose in Ukraine.** The situation heated up after the resignation of several high-ranking technocrat officials including the economy minister, who declared that the continued existence of "old" corrupt practices prevents the implementation of any reforms. After more than a month of political bickering, there is the prospect of a new cabinet under a new Prime Minister (possibly a loyalist of President Poroshenko). However, we still see the possibility of early elections – moreover, **payments by the IMF and Western donors have been delayed and lack of progress in (anti-corruption) reforms further strains the relations with the IMF**. New parliamentary elections would play in the hands of (anti-austerity) populists, given the dire economic situation, and are thus sought to be avoided by Ukrainian authorities, the IMF and Western donors. Meanwhile, **the situation in Donbas remains tense and essentially in a deadlock**. Full implementation of the Minsk-II agreement was not reached in 2015, but the objectives are still valid and were informally extended into 2016. The local elections in territories not controlled by Ukrainian authority have not been held yet as there is no ceasefire, the access of international observers is limited, and there is still no law on elections in territories not controlled by Ukraine. In the meantime, external partners are putting pressure on Ukraine (and Russia) to accelerate the implementation of Minsk-II.

On a positive note, the **EU-Ukraine Deep and Comprehensive Free Trade Area agreement came into force on 1 January 2016**. However, the improvement of trade relations with the EU led to further deterioration of relations with Russia and the strengthening of mutual trade barriers.

Key economic figures and forecasts

	2011	2012	2013	2014	2015	2016e	2017f
Nominal GDP (EUR bn)	116.9	135.2	135.3	99.9	81.4	78.3	84.8
Real GDP (% yoy)	5.5	0.2	0.0	-6.6	-9.9	1.5	2.0
Industrial output (% yoy)	8.0	-0.7	-4.3	-10.1	-13.0	3.0	4.0
Unemployment rate (avg, %)	8.7	8.2	7.8	9.7	11.5	11.0	10.0
Nominal industrial wages (% yoy)	20.9	14.8	7.9	6.0	20.5	14.6	15.0
Producer prices (avg, % yoy)	19.0	3.6	-0.1	17.1	36.0	7.9	9.0
Consumer prices (avg, % yoy)	8.0	0.6	-0.2	12.1	48.7	14.1	12.9
Consumer prices (eop, % yoy)	4.6	-0.2	0.5	24.9	43.3	14.0	9.0
General budget balance (% of GDP)	-1.8	-3.8	-4.4	-4.9	-2.3	-3.5	-3.0
Public debt (% of GDP)	36.4	37.1	40.7	52.9	72.6	81.3	84.9
Current account balance (% of GDP)	-6.3	-8.2	-9.2	-3.5	-0.2	-3.4	-4.7
Official FX reserves (EUR bn)	24.5	18.6	14.8	6.2	12.2	16.5	18.6
Gross foreign debt (% of GDP)	77.6	76.5	79.3	95.2	131.5	142.9	142.5
EUR/UAH (avg)	11.1	10.4	10.8	15.9	24.3	29.5	31.1
USD/UAH (avg)	8.0	8.1	8.2	12.0	22.0	26.8	29.4

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

Ukraine's economy reached the bottom in mid-2015 and started to climb again in H2. According to official estimates, Ukraine's GDP increased by 0.5% qoq in Q3 and by 1.5% qoq in Q4. As a result, annual GDP decreased by 9.9% yoy in 2015, given the strong slump in H1. For 2016, **we do not expect a quick economic recovery, but very modest growth of 1-2%**, as there is a lack of substantial growth drivers. Inflation in 2015 closed the year at 43.3% yoy (after a peak at 60.9% in April). In February 2016, the CPI growth rate slowed to 32.7% yoy due to growth of food supply in the domestic market and the base effect. In our view, the **CPI will fall to 14-15% yoy by the end-2016** on the back of strong base effects and relative economic stability (at least in comparison to early 2015). With the economy no longer in free fall, we see imports stabilising or even slightly increasing in 2016. On the other hand, the relatively low commodity prices, the small size of EU quotas for key agricultural products, and the deteriorated trade relations with Russia depress the potential for export revenues in 2016. Thus, we **expect a return of the current account deficit to the extent of 3% of GDP in 2016.**

Financial Market Outlook

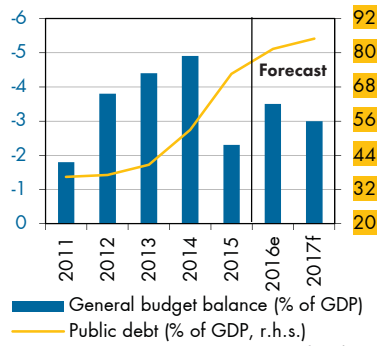
Against the background of political instability and very slow progress with respect to anti-corruption measures, the **IMF is not hurrying to provide the next tranche to Ukraine** (even after the adoption of an IMF compliant budget for 2016 and changes to the Tax Code). However, cooperation with the Fund continues, while the third USD 1.7 bn tranche under the four-year EFF programme has already been delayed since September 2015. As a result, the linked financial support is also greatly postponed. While the IMF money is earmarked to increase FX reserves, the linked US and EU funds are aimed at filling the gap in the budget. During the first two months of 2016, FX reserves increased only by USD 238 mn to the level of USD 13.5 bn. The **main sources of FX reserve growth were swap operations** and internal government bond issues denominated in foreign currency.

The delayed external support, together with the highly uncertain political situation and the deterioration of the trade balance, **puts intense pressure on the Ukrainian FX market**, leading to additional depreciation pressure. Given the difficult situation on the FX market, the National Bank of Ukraine decided to extend the majority of FX restrictions for another three months until 8 June. Nevertheless, the regulator has eased some FX purchase and withdrawal limits for individuals. Taking into account the recently mounting risks to price stability in light of the turbulence in the global economy and the domestic instability of the FX market, the central bank decided to leave the key rate unchanged at a level of 22%. The bank will continue to cut rates later this year when the inflation rate falls more strongly in coming months and if the political noise recedes. Political tensions resulted in the tangible decline of Ukraine's Eurobond prices in February. Rumours about possible candidates for the office of Prime Minister were welcomed by the market, which was immediately reflected in the Eurobond prices.

All in all, we **continue to expect a UAH depreciation trend against the USD** that is being slowed down/prevented by the strict administrative central bank measures. Additional depreciation and the speed of such depreciation will remain largely controlled by the central bank. Improvements in political constellations could cause short-term appreciation on hopes of IMF and linked financial support pay-out, but we would regard such strengthening as only short-lived.

Financial analysts: Sergii Drobot, Raiffeisen Bank Aval Public Joint Stock Company, Kiev
Andreas Schwabe, CFA, RBI Vienna

Budget balance and public debt



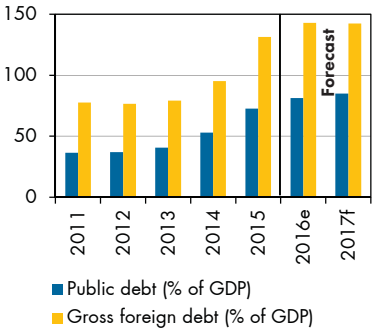
Source: State Statistics Committee of Ukraine, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
EUR/UAH	29.47	29.70	29.70	30.45	29.29
Cons.		*30.20*	*30.50*	*34.20*	*30.30*
USD/UAH	26.35	27.00	27.00	29.00	29.00
Cons.		*28.00*	*29.50*	*29.50*	*30.00*

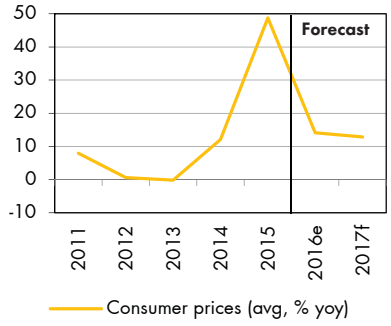
[1] *5:00 p.m. (CET)*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Public and external debt



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

Inflation outlook

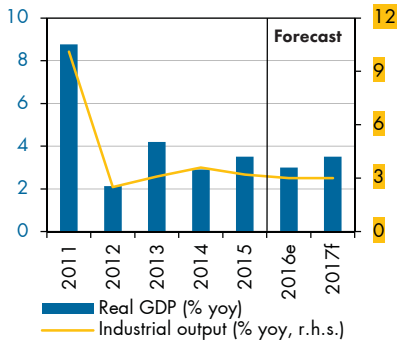


Source: State Statistics Committee of Ukraine, RBI/Raiffeisen RESEARCH

Volatily due to geopolitics and Fed hikes

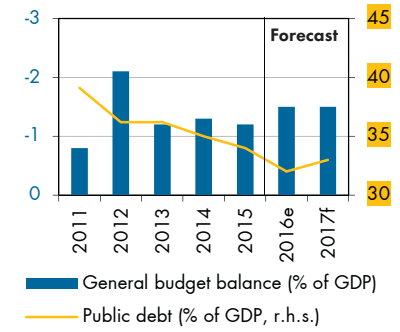
- **Economy likely to continue growing at around 3% in 2016, C/A deficit moderate for Turkey**
- **Slow disinflation with inflation rates of around 8% in both 2016 and 2017 expected**
- **Worsening investor sentiment (security concerns, US Fed rate hikes) implies risks of weaker TRY**
- **Elevated volatility on TRY bond market expected**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

The **Turkish economy has done surprisingly well**, considering the difficult external and internal political environment and security situation. GDP for 2015 had still not been released at the time of writing, but we estimate the real growth rate at about 3.5%, along with consensus. Moreover, industrial output in late 2015/early 2016 is pointing in a positive direction as well, creating upside risks to our below-consensus GDP call. Furthermore, we see chances that healthy domestic demand trends will continue in 2016. Thus, **we raise our GDP estimate for 2016 from the previous figure of 2.5% to 3% yoy**. The government is even more optimistic, pencilling in 4.5 to 5.0% growth for 2016-2018 in its annual medium-term economic programme.

With regard to inflation developments, the picture looks less favourable. Headline inflation and core inflation both reached local highs close to 10% yoy in early 2016. For headline inflation, we expect some deceleration and lower inflation rates of around 8% later in spring and summer. Towards the end of the year, inflation could rise again on base effects. With this intra-year development, the average CPI rate in 2016 should come in at slightly above 8% yoy. In 2017, the inflation rate could then fall below 8%. Overall, we do not expect rapid disinflation in the next 2-3 years.

The current account deficit, the Achilles' heel of the Turkish economy for years, showed a further decline in 2015. At USD 32 bn, the C/A deficit was almost half the size compared to 2013. With the weaker lira, imports adjusted by USD 40 bn or 15% over two years. In 2016, exports to Russia are curtailed by the deterioration in relations between Turkey and Russia; moreover, the difficult security situation could deter Western tourists as well. Nevertheless, **we expect only a limited increase of the C/A deficit in 2016** towards USD 35-40 bn.

Key economic figures and forecasts

	2011	2012	2013	2014	2015	2016e	2017f
Nominal GDP (EUR bn)	555.2	612.2	618.8	602.5	647.0	675.1	767.4
Real GDP (% yoy)	8.8	2.1	4.2	2.9	3.5	3.0	3.5
Industrial output (% yoy)	10.1	2.5	3.1	3.6	3.2	3.0	3.0
Unemployment rate (avg, %)	9.1	8.4	9.0	9.9	10.3	10.0	10.0
Nominal industrial wages (% yoy)	8.0	6.0	6.0	n.v.	n.v.	n.v.	n.v.
Producer prices (avg, % yoy)	11.1	6.1	4.5	10.2	6.0	n.v.	n.v.
Consumer prices (avg, % yoy)	6.5	8.9	7.5	8.9	7.7	8.3	7.9
Consumer prices (eop, % yoy)	10.5	6.1	7.4	8.2	8.8	8.4	7.4
General budget balance (% of GDP)	-0.8	-2.1	-1.2	-1.3	-1.2	-1.5	-1.5
Public debt (% of GDP)	39.1	36.2	36.2	35.0	34.0	32.0	33.0
Current account balance (% of GDP)	-9.6	-6.1	-7.7	-5.4	-4.5	-5.0	-4.9
Official FX reserves (EUR bn)	68.0	90.4	95.1	105.2	103.1	104.8	107.1
Gross foreign debt (% of GDP)	39.3	43.1	47.3	50.3	59.9	60.6	56.6
EUR/TRY (avg)	2.34	2.31	2.53	2.90	3.02	3.22	3.17
USD/TRY (avg)	1.68	1.80	1.91	2.19	2.73	2.93	2.99

Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

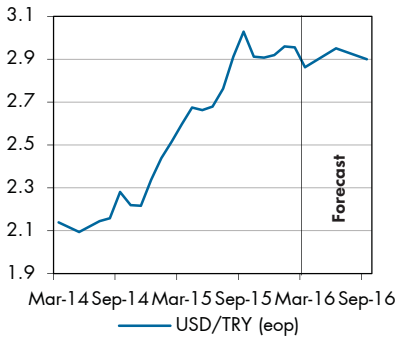
Financial Market Outlook

In March, TRY was quite unimpressed by the security concerns (PKK, Syria), the ongoing tensions between Russia and Turkey, and the different statements by President Erdogan (for example, criticism of the constitutional court). The **Turkish lira enjoyed some support from the delay to the US Fed's interest rate hikes**, the ambitious ECB measures, and the decision of the European Council to approve the EU deal with Turkey on the migration crisis. Nevertheless, a gradual increase in the US key rate should still be a burden for the highly USD-indebted Turkish economy (which makes the country strongly dependent on inflows of foreign currency). Such a step could be expected during Q2 2016. Furthermore, in 2015 the number of foreign visitors already declined by 1.61% from the previous year. The start of this year already shows that the number of visitors in 2016 might be significantly lower. Important capital inflows are at risk due to the shrinking tourism sector and restrained investor sentiment due to further bomb attacks. A weakening of TRY back to levels near 3.0 against USD is likely.

Against this FX outlook, **Turkish local currency bonds do not seem attractive from an absolute return perspective**. What adds to our concerns is the uncertainty in terms of future monetary policy, including the expected reshuffling of the MPC in the middle of this year. Nevertheless, in our base case we expect the simplification of monetary policy to start as early as April, in an environment when market participants will be preparing for the Fed's second rate hike in June. Specifically, we expect adjustment of the 1w repo rate to the level where the weighted average costs of funding are currently at (close to 9% in recent weeks). This would mainly mean an adjustment of the MP toolkit to current monetary conditions, i.e. no tightening since we expect more government-friendly reshuffling of the MPC, including governor Basci's successor. The use of the o/n corridor, in addition, should be faded out in order to simplify Turkish monetary policy and regain some confidence from Turkish lira market investors. Under such circumstances, **local currency bonds, which saw an impressive rally in the recent past in line with TRY appreciation, should witness a very volatile period** before the re-pricing action has been concluded, to account for the changed (monetary) conditions (a possible cut to the upper boundary of o/n corridor could also occur). With local risks (presidential system, etc.) and geopolitical risks adding to the precarious risk cocktail we wouldn't recommend re-entering the Turkish lira market, although slow and moderate Fed tightening should be more digestible for Turkey than previously feared.

Financial analysts: Andreas Schwabe, Martin Stelzeneder, Stephan Imre, RBI Vienna

Exchange rate development



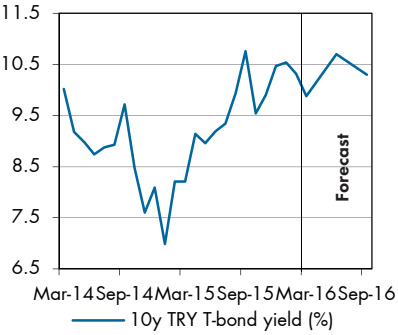
USD/TRY: 5y high 3.06, 5y low 1.51
Source: Thomson Reuters, Raiffeisen RESEARCH

Exchange rate forecasts

	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
EUR/TRY	3.20	3.25	3.19	3.10	3.03
Cons.		*3.32*	*3.33*	*3.22*	*3.15*
USD/TRY	2.86	2.95	2.90	2.95	3.00
Cons.		*3.02*	*3.03*	*3.07*	*3.12*

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

TRY yield development (%)



10y TRY T-bond yield: 5y high 11.08, 5y low 6.02
Source: Thomson Reuters, Raiffeisen RESEARCH

Interest rate forecasts (%)

	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
Key rate	7.50	8.50	9.00	9.00	8.25
Consensus		*8.10*	*8.55*	*8.70*	*8.95*
1 month[2]	11.23	11.00	10.50	10.00	9.50
3 month[2]	11.35	11.00	10.50	10.00	9.50
Consensus		*10.87*	*10.70*	*10.50*	*11.10*
6 month[2]	11.41	11.10	10.60	10.10	9.60
12 month[2]	11.51	11.20	10.70	10.20	9.70

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

Yield forecasts (%)

	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
2y T-bond[2]	9.89	10.5	10.0	9.8	9.0
Consensus		*10.8*	*10.7*	*11.1*	*11.8*
10y T-bond[2]	9.88	10.7	10.3	10.0	9.5
Consensus		*10.5*	*10.5*	*10.6*	*11.8*

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

Riders on the storm[1]

- **Positive headwinds from developed markets helped CEE secure positive performance**
- **More sovereign Eurobond placement expected on primary markets in Q2**
- **Stronger outlook for CEE thanks to ECB easing bias and slow Fed tightening ahead**
- **We see more upside in Turkish and Kazakh bonds, while we downgrade Russia and Hungary**

EMBIG USD index & spreads*

	29-Mar		Spread value, bp		
	Index	Spread, bp	qoq*	5y min	5y max
PL (A-)	604	126	23	71	361
LT (A-)	173	130	23	81	493
KZ (BBB)	175	411	39	195	617
RO (BBB-)	151	200	20	141	528
TR* (BBB-)	715	309	18	170	411
HU (BB+)	302	215	35	162	726
RU (BB+)	1019	299	8	155	702
HR (BB)	152	301	-14	224	657
RS (BB-)	224	325	66	217	724
BY (B-)	162	526	-43	476	1747
UA (B-)	600	831	41	393	4281
Europe*	1083	328	22	-23	485
Africa	866	565	8	239	714
Asia	614	251	-7	153	335
Mid East	480	546	54	305	602
Latam	605	581	-11	297	719
Global	**701**	**442**	**3**	**244**	**532**
Inv.grade	**541**	**272**	**-16**	**146**	**337**
BB	**687**	**365**	**33**	**188**	**500**
B	**1083**	**586**	**25**	**377**	**1099**

** S&P ratings, TR - Turkey Fitch rating, Europe - CEE, Q/Q - quarter-on-quarter (latest = cut-off date), 5y - 5-year minimum and maximum*
Source: Thomson-Reuters, RBI/Raiffeisen RESEARCH

CEE ratings direction

	rating *	Direction **
CE:		
CZ	AA-/A1/A+	⇔
SK	A+/A2/A+	⇔
PL	BBB+/A2/A-	⇔
LT	A-/A3/A-	⇔
LV	A-/A3/A-	⇔
SI	A-/Baa3/BBB+	⇧
HU	BB+/Ba1/BB+	⇧
SEE:		
RO	BBB-/Baa3/BBB-	⇔
BG	BB+/Baa2/BBB-	⇔
TR*	BB+u/Baa3/BBB-	⇔
HR	BB/Ba2/BB	⇩
RS	BB-/B1/B+	⇔⇧
AL	B+/B1/n.r.	⇔
BH	B/B3/n.r.	⇔
EE:		
KZ	BBB-/Baa2-/BBB+	⇔
RU	BB+/Ba1-/BBB-	⇔
BY	B-/Caa1/B-	⇔
UA	B-/Caa3/CCC	⇔⇩

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

Market trends

Despite the challenging start to the year, **we see the positive headwinds from the developed markets, which came later at the end of February and during March, as helping CEE sovereign Eurobonds to secure positive performance in Q1**. Still, the return in the European (CEE) EMBIG USD segment averaged below nearly all major competitors, with CEE segment lagging 2% in price terms compared to the returns on the EMBIG USD Composite price index. Similar tendencies occurred in the EUR segment, too. Our buy recommendation for Turkey netted us a 4% price gain, pushing this market to "No. 1" in Q1 performance ranks. Our tactical change from sell to hold in Croatia later in January on the appointment of a new reform-minded government also brought us positive results, although we continue to take a very critical view of Croatia's fiscal sustainability situation. Similarly, buying Russia in January on abating short-term risks, as the oil price decline slowed and later reversed, yielded a +3.8% return. On the other hand, selling Ukraine was a good decision as the government crisis later revealed the implementation vulnerabilities we mentioned in our Q1 2016 strategy publication to explain our action. On the rating front, we experienced a few sudden surprises. **In the most unexpected decision, in March, Moody's put Russia's rating on watch for a possible downgrade** alleging that the low oil price increased fiscal challenges for Russia in the medium term. We find Moody's decision slightly overreaching especially since Moody's was the only agency which moved Russia from negative to stable back in December 2015. In other CIS news, S&P lowered the Kazakh credit rating to BBB-/negative on the low oil price risks, while Fitch introduced a new rating for Belarus at B-/stable. **In CE, the S&P downgrade of Poland from A- to BBB+ was predictable although not expected by us**, and came as a result of negative headline risks impacting the economy and market outlook. On the other hand reluctance of rating agencies to upgrade Hungary to investment rating was totally unexpected. In SEE, the downgrade of Croatia to Ba2/negative by Moody's was in line with our expectations, as well as the S&P upgrade of Albania to B+/stable.

Primary markets

In Q1, sovereign Eurobond issuance climbed to USD 10 bn, from USD 7 bn in Q4 2015, with CE and SEE dominating the market in the absence of EE sovereigns. Negative interest rates in the euro area attracted all CEE except Turkey to issue on the EUR market, which accounted for 83% of all FX in which CEE sovereigns issued in Q1. Still, the overall CEE sovereign volumes dropped below Latin America, as the tight CEE spreads and more possibilities on domestic markets contributed to the change in the issuance balance. **We foresee a pretty busy Q2 since improving market conditions amid historically low yields in the EUR market will continue to attract CEE sovereigns.** In particular, Lithuania, Poland, Hungary, Romania, and potentially Croatia could approach the EUR market soon. In USD, Turkey is likely to be a more regular issuer while Russia is also attempting to push through a USD 3 bn placement, despite US/EU opposition.

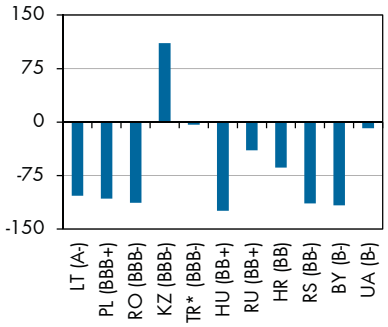
1 "Riders on the Storm" is a legendary song by The Doors from their 1971 album "L.A. Woman"

Outlook and strategy

The ECB push for more monetary stimulus coupled with the Fed's relatively dovish tone raises our hopes for better performance in the CEE Eurobond markets. The CEE market already fell from its peak with CEE outperformance clean of Composite EMBIG USD gains averaging at only +1% compared to nearly 4% just a few months ago. The Eurobond supply from CEE is unlikely to trigger any concerns since the sovereign Eurobond maturity profile for 2016 is pretty small, while 2017 is unlikely to see a major pick-up either. This situation can unlock some **positive potential especially in high beta names such as Turkey or Kazakhstan**, which were formerly punished due to external risks and internal weakness. In Turkey, politics would be a major drawback for an otherwise stable economy, while TR sovereign spreads appear fairly attractive compared to peers. Kazakhstan may also see a bit more buying interest after the elections produced a largely expected outcome, while good signs of economic stabilisation and growth are emerging. We also anticipate rating pressure on Kazakhstan to ease, although negative outlooks could remain through Q2-Q3. Accordingly, we keep both these sovereigns on a buy list. On the other hand, **we move Russia from buy to hold on tight valuations and a Moody's review** implying a higher risk of rating downgrade. At the same time, we upgrade Ukraine from sell to hold on likely reformist government appointment, and move Belarus from hold to buy on the news of a possible USD 1.1 bn credit from the Eurasian Stabilisation Fund (sponsored by Russia) this year. **In SEE, we find Romania relatively tight compared to Bulgaria while fiscal issues may cloud Romania's outlook** while we continue to hold Serbia on likely policy improvements after the elections. Meanwhile, in Croatia we are prepared to go from hold to sell if government promises of a tight budget fail to impress us. **In CE, we find that Lithuania and Poland still offer some appeal**, although in Poland we remain concerned about political headlines exerting pressure on the rating. Last, but not least, **we downgrade Hungary from buy to hold** on the tight rating-spread valuations since the upgrade process becomes lengthy which, most likely, underscores the bad political legacy of previous years including national bank reform and similar topics.

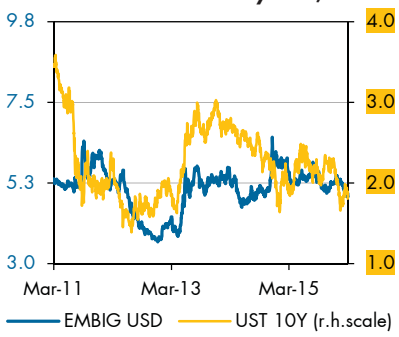
Financial analyst: Gintaras Shlizhyus, RBI Vienna

CEE EMBIG rating spread, bp*



** JPM USD EMBI Global index family, TR - Turkey Fitch rating, rating spread is sovereign spread minus respective rating aggregated spread (EMBIG)*
Source: Thomson Reuters

CEE EMBIG vs. UST 10Y yields, %*



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

Benchmark Eurobond forecast and performance

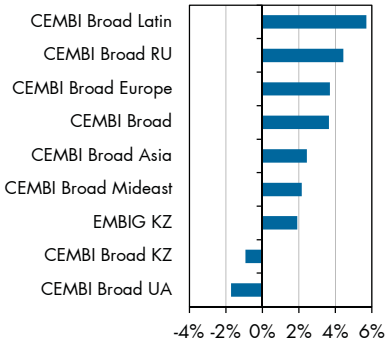
				Spread		Range			Spread	Range			Spread	Range		
Issue		Rating	Dur.	29-Mar	Jun-16	min.	max.	Perf. (%)	Sep-16	min.	max.	Perf. (%)	Dec-16	min.	max.	Perf. (%)
PL 3% due 23	USD	BBB+	6.3	**111**	**98**	94	116	0.8	**105**	100	122	-1.6	**115**	110	132	-2.8
PL 4.5% due 22	EUR	BBB+	5.3	**74**	**60**	55	72	0.7	**49**	44	61	1.3	**54**	49	66	1.1
LT 6.625% due 22	USD	A-	5.0	**148**	**125**	117	138	1.1	**129**	121	142	-0.6	**137**	129	150	-1.5
LT 4.85% due 18	EUR	A-	1.8	**28**	**28**	28	28	0.0	**25**	25	26	0.0	**27**	27	27	0.0
TR 3.25% due 23	USD*	BBB-	6.2	**247**	**220**	210	317	1.7	**228**	218	325	-0.7	**239**	229	336	-2.0
TR 5.125% due 20	EUR*	BBB-	3.7	**253**	**225**	215	255	1.0	**216**	206	245	1.4	**225**	215	254	1.0
RO 4.375% due 23	USD	BBB-	6.4	**161**	**155**	153	159	0.4	**165**	163	169	-2.2	**172**	170	176	-3.3
RO 4.875% due 19	EUR	BBB-	3.4	**98**	**100**	99	101	-0.1	**100**	99	101	0.0	**105**	104	106	-0.2
BG 2% due 22	EUR	BB+	5.7	**200**	**180**	166	208	1.1	**174**	161	202	1.4	**193**	180	221	0.4
RU 4.5% due 22	USD	BB+	5.2	**274**	**270**	269	273	0.2	**290**	289	293	-2.4	**314**	313	317	-4.2
HU 5.375% due 23	USD	BB+	5.8	**170**	**165**	162	167	0.3	**164**	161	166	-1.4	**169**	165	170	-2.3
HU 3.875% due 20	EUR	BB+	3.7	**110**	**115**	112	117	-0.2	**104**	101	106	0.2	**109**	105	111	0.0
HR 5.5% due 23	USD	BB	5.7	**276**	**280**	279	283	-0.2	**287**	286	289	-2.3	**305**	303	307	-3.9
HR 3.875% due 22	EUR	BB	5.4	**367**	**370**	368	380	-0.2	**356**	354	367	0.6	**368**	365	378	0.0
RS 7.25% due 21	USD	BB-	4.6	**349**	**340**	337	347	0.4	**358**	355	365	-1.5	**364**	361	371	-2.3
BY 8.95% due 18	USD	B-	1.7	**552**	**510**	480	525	0.7	**512**	483	527	0.4	**558**	528	573	-0.3
UA 7.75% due 27	USD	B-	7.2	**764**	**760**	757	761	0.3	**730**	727	732	0.2	**693**	690	695	2.2

** USD bond spreads to UST notes, EUR bond spreads to German Bunds, 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

Oil-induced correction on the cards, buy on lows in Q2

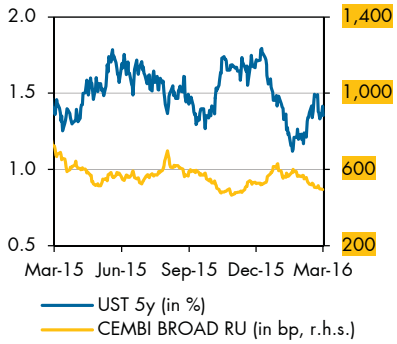
- **Fed's dovishness may evaporate**
- **Oil price to remain in the front seat**
- **Technicals provide some support**
- **Own shorter duration in export-oriented sectors**

Q1 2016 qtd returns



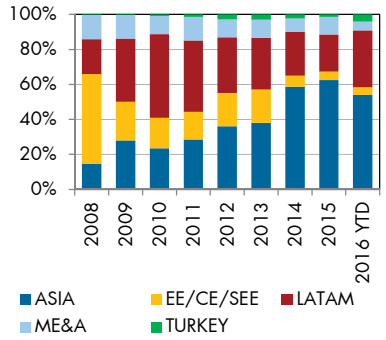
**data are for Broad Series*
5y average annual return in %: CEMBI Broad RU: 6.2, CEMBI Broad Mideast: 6.0, CEMBI Broad Asia: 5.9, CEMBI Broad Europe: 5.3,EMBIG KZ: 4.7, CEMBI Broad: 4.6, CEMBI Broad Latin: 2.5, CEMBI Broad UA: -1.1, CEMBI Broad KZ: -2.5
Source: JP Morgan, RBI/Raiffeisen RESEARCH

UST vs. CEMBI RU Index



UST: 5y high: 2.32 %, 5y low: 0.54 %
CEMBI BROAD RU: 5y high: 1207bp; 5y low: 254bp
Source: Bloomberg, JP Morgan, RBI/Raiffeisen RESEARCH

EM corporate issuance (%)



Source: Bond Radar, RBI/Raiffeisen RESEARCH

We expect to see a measured oil-induced consolidation in Q2 2016 after the decent Q1 2016 rally, but think that EE credits will remain attractive in the last two quarters of 2016. We recommend investors buying on lows to utilise any temporary oil weakness which may occur along the way.

Valuations remain quite rich, but we believe that there is some room left for further tightening. Today, Russian credits are trading about 250bp wide of this credit cycle's lows reached back in 2011. Due to a different setting and quite a progressed credit cycle today, we believe that only measured tightening potential is on the cards going forward. Our oil analyst forecasts an average oil price of USD 34 in Q2 2016 as opposed to below USD 40 now. For lack of other stronger catalysts, we think that the oil price correlation will remain robust for now. Although we believe that the Fed's dovishness will likely evaporate sooner rather than later, it may further support the valuations in April. However, we think that the rising likelihood of a rate hike in June underpinned by solid macro data will eventually shift the US Treasury curve upwards towards the end of Q2 2016.

The oil price dependence of EE credits took the front seat again. The 90-day rolling correlation of the CEMBI Broad Russia Index and the oil price plummeted to -0.95 against the 7y average of -0.65, and the commodity rally seems to be dominating the EE credit space for now, helped by the increased dovishness of the Fed. Moreover, we believe that the additional quantitative easing announced in mid-March by the ECB also increased the attractiveness of risky assets in the EM space.

The technical situation remains supportive. As primary market activity remains contained due to the sanctions, only a handful of issuers dare tap the Eurobond market now which adds a certain scarcity element to Russian credits, itself the largest stakeholder in the CEE credit remit. We expect the gradual phasing out of sanctions towards the end of 2016, subject to more progress being made on the Minsk-II front. That said, we believe that more brisk issuance, subject to lifting of the sanctions, could boost investor appetite which would in turn lead to eroding primary market premiums and eventually support flows in secondary trading.

New issuance remained quite thin and lower in an annual comparison. However, we point out that generally lower volumes were also registered in the broader EM remit in the first three months of this year. In the period under question, we have seen only three corporate transactions in CEE, all in the EE space. On 16 March, Gazprom (Ba1/BB+/BBB-) issued a long-awaited CHF-denominated bond maturing in November 2018 which was placed at MS+409bp to yield 3.3375%. On 17 March, the Azerbaijani Southern Gas Corridor Company (-/Ba1/BB+) followed with a USD 1 bn issue to yield 7.0% due in 10y. And finally, on 21 March, a smaller USD 150 mn issue to yield 8.5% of the Russian B&N Bank rated by S&P at B- was placed, due in 5y.

CEE corporate issuance reached USD 3.5 bn in the first three months of last year, implying a 53% drop in issuance yoy. Looking at the broader EM universe, total ytd corporate issuance stands at USD 38 bn, for a 50% drop from USD 76 bn in the same period of the last year.

In Russia, the major factor remains the closed refinancing window for many companies due to the sanctions and elevated funding costs. We are maintaining our view that the new issuance will remain sporadic at best, at least as long as the sanctions are in place or the likelihood of their lifting rises materially, which will not occur before the end of Q2 2016.

The fundamental backdrop remains quite supportive, and we see no significant liquidity bottlenecks in Russia. The banking sector in Russia remains underpinned by the prolongation of the FX repo with the Central Bank of Russian. That said, the fears related to collateral selling did not materialise as the banks will rely on the facility in 2016 as well.

The oil&gas sector is in quite good shape for now, supported by the weak rouble which counterbalances the low hydrocarbon prices. Positive oil price momentum in 2016 will remain crucial for valuations. We maintain our buy call on GAZPRU 8.625% due 2034. However, we suggest that the market may be cautiously pricing in the potential for tax hikes in 2017 or even 2016, which – if they materialise – may act as a drag on the companies' free cash flow and further increase leverage. Higher taxes from the oil & gas sector may prove inevitable as the gaping budget deficit needs more revenue, in the context of low oil and gas prices. Although, we do not expect the government to seriously impact the viability of the companies' business models, a higher tax burden may put their free cash flow under pressure or – in the case of Gazprom – even drag it into the red in 2016.

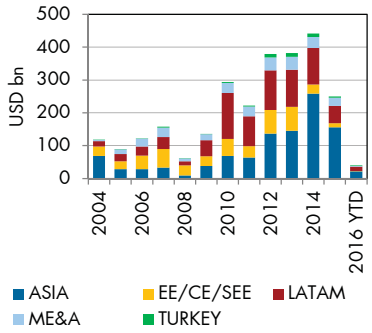
By contrast, the steel sector remains under strain with upward pressure on leverage sustained due to the falling steel prices. On a negative note, Evraz reported quite downbeat financial results for 2015. The dataset reflected the deteriorating commodity pricing environment and plummeting steel and coal sales. Net leverage surged to 3.7x from 2.5x a year ago, on the back of plummeting EBITDA. We keep our sell call on EVRAZ 9.5% due 2018.

In Poland, the heated discussion about the final shape of the FX-conversion plan continues. Currently, the CHF-mortgage conversion at historical exchange rates, the final shape of the burden sharing between banks and mortgage debtors, and the introduction of the bank levy remain pivotal.

Looking at 2016 ytd performance, Russian credits remain very well positioned against their direct EM peers. The EM credit index returned 3.6% while the two best performing markets have been LatAm (5.7%) and Russia (4.4%), ahead of Asia (2.4%) and MidEast (2.2%). On the other hand, Kazakhstan and Ukraine remained in negative territory, at -0.9% and -1.7%, respectively. The Russian performance was clearly supported by the resurgent oil price (+46% compared to this year's lows) and the Fed's dovishness. The dovish tone of the Fed's monetary policy translated into falling US Treasury rates, which supported the ytd performance of EE credits. Russian spreads compressed by 16bp ytd and while yields fell by 58bp, almost 3/4 of the yield drop was explained by the lower risk-free rates. Kazakh spreads increased by 163bp ytd which was due to the culminating KZT depreciation in January, while the largest contributors to the negative performance were the weaker bank credits: KKB and BTA. Looking at our covered universe in Kazakhstan, we have one outstanding sell recommendation on Halyk Bank's 2017 bond. Ukrainian spreads dropped by 381bp ytd, which was largely the result of the index rebalancing occurring in March and the exclusion of the Metinvest's bond due to the company's restructuring. After the index rebalancing, the Ukrainian component of the CEMBI Broad Index consists of only two Eurobonds: DTEK and MHP.

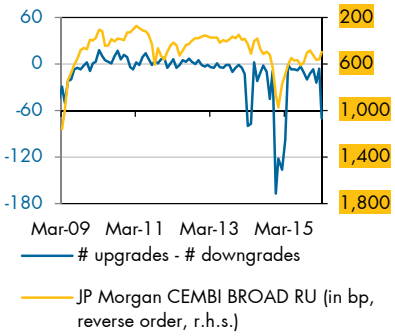
Financial analyst: Martin Kutny, CFA; RBI Vienna

EM corporate issuance



Source: Bond Radar, RBI/Raiffeisen RESEARCH

Rating drift in Russia



CEMBI BROAD: 5y high: 571bp; 5y low: 268bp
Source: Bloomberg, JP Morgan, RBI/Raiffeisen RESEARCH

Selected EE Eurobonds

Issuer	ISIN	Maturity	Yield in %
Alfa Bank	XS0544362972	25/09/17	4.2
Evraz	XS0618905219	27/04/18	6.4
Gazprom	XS0708813810	23/01/21	5.2
Sberbank	XS0799357354	28/06/19	4.4
VimpelCom	XS0587031096	02/02/21	6.1

Source: Bloomberg, RBI/Raiffeisen RESEARCH

Performance at the operative level remains subdued

- **Declines in earnings expected**
- **Valuations remain moderate**
- **ECB policy supportive over the short run**

Value matrix*

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

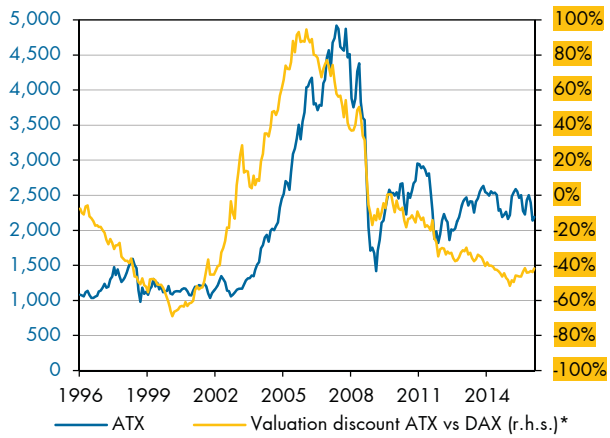
1 (4) denotes highly positive (negative) influence on the market. All factors are weighted equally.
** expected trend for the next 3 to 6 months*
Source: RBI/Raiffeisen RESEARCH, Raiffeisen Centrobank

Developments on the **Austrian equity market** were very volatile in **Q1**, with the period finally ending on a **disappointing** note. In particular, worries about slowdowns in Chinese and US economic growth turned out to be a major burden. The slump in oil prices also did little to bolster confidence. With the turmoil on the international capital markets, it was quite unlikely that the ATX would be able to avoid problems. In the end, however, the intense pessimism of many market participants failed to materialise. As a result, the ATX was ultimately able to recoup some of the losses it had suffered.

On the whole, **economic conditions remain solid**. While we had to downgrade our original GDP forecasts for the euro area, we do not see a deterioration in the macro-economic environment. For Austria, we project that economic performance will accelerate mildly compared to last year. Although the relevant leading indicators are not sending any clear-cut signals, the tax reform and our projections of positive development in investment in plant and equipment should enable GDP growth to reach 1.4% in 2016. The situation in Eastern Europe still requires a more differentiated assessment. In Russia, economic activity is expected to continue weakening in 2016. By contrast, the economic performance of the CE region remains solid.

In our view, the **ECB's monetary policies** will continue to be a **key influencing factor**. On the one hand, there now appear to be no obstacles to an increase in surplus liquidity in the euro area, and thus pressure on yields in the fixed-income investment segment will remain high. Consequently, it is quite conceivable that, at least over the short term, the **hunt for yields** will also support Austria's equity market. On the other hand, we do not believe that this will have any lasting impact, because while the policy pursued by the ECB does mitigate systemic risks, it has failed to generate any tangible positive effects on the economy and inflation. Moreover, it has led to problems for many European financial companies (which have a significant weighting in the stock indices), as well as for their business models (including low interest margins).

ATX shows valuation discount



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

Sector structure of the ATX

Sector	Company	Weight
Financials	BUWOG, CA Immobilien, conwert, Erste Group, Immofinanz, Raiffeisen Bank International, Uniqa, Vienna Insurance Group	45.8%
Industrials	Andritz, Oesterreichische Post, Wienerberger, Zumtobel	22.1%
Energy	OMV, SBO	14.2%
Basic materials	Lenzing, RHI, voestalpine	12.3%
Telecom	Telekom Austria	2.3%
Utilities	Verbund	2.3%
IT	AT&S	1.1%

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

Despite the expansion of QE measures in monetary terms, we **do not expect** to see **much operative momentum this year**. The latest corporate data released in the reporting season were solid on the whole, but unspectacular. In terms of the heavyweights, Erste Group in particular delivered better-than-expected figures. OMV also managed mildly surprising positive results. Andritz and voestalpine, on the other hand, broadly met the expectations. As for the outlook, most of the big companies were rather restrained or confirmed their targets. For example, Andritz sees ongoing uncertainty in its main markets and subdued project activity. Drawing the conclusions from this, our projections point to declines in aggregate earnings for the ATX companies. At the moment, **we forecast earnings to fall** by around 12 per cent compared to 2015. As for currency developments, we do not see much impetus for earnings in the months ahead. We only expect mild depreciation of EUR versus USD, for instance. In contrast to this, however, RUB should weaken, at least over the short term.

On the whole, there was **little change in valuations**, in part due to the declines in prices and in part due to the downward revisions of earnings. Based on our forecast for adjusted earnings, the P/E ratio for 2016 is 12.8. The valuation discount compared to the Western European indices, such as the Euro STOXX 50, has narrowed in recent months. Compared to the **CE markets (e.g. PX, WIG30, etc.), however, there was no major deviation on average.**

Fair value of ATX[1] – Mar 2016

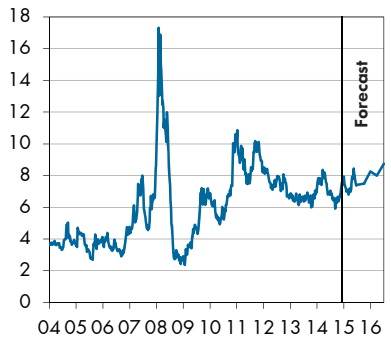
	Bond yields (10y)		
EY-BY[2]	**0.50%**	**0.75%**	**1.00%**
9.50%	2,106	2,054	2,006
9.25%	2,160	2,106	2,054
9.00%	2,217	2,160	2,106
8.75%	2,277	2,217	2,160
8.50%	2,340	2,277	2,217
8.25%	2,407	2,340	2,277
8.00%	2,477	2,407	2,340
7.75%	2,553	2,477	2,407
7.50%	2,632	2,553	2,477
7.25%	2,717	2,632	2,553
7.00%	2,808	2,717	2,632
6.75%	2,905	2,808	2,717
6.50%	3,008	2,905	2,808
6.25%	3,120	3,008	2,905

[1] based on the expected earnings for 2016/2017 (i.e. 210.6 index points)
[2] earnings yield less bond yield
Source: RBI/Raiffeisen RESEARCH, Raiffeisen Centrobank

Summary: A wide range of different factors will continue to influence the performance of the Austrian stock market in the quarter ahead. Fundamentally, we expect that the doom-and-gloom view of the international economy which dominated large parts of the first quarter will not prevail, in light of our expectations about economic data developments. This applies for both China and the USA. We see the ECB as providing mild support. Over the short run, the measures it has taken will likely cause alternative investments in the bond segment to become more expensive again, drawing the equity segment even more strongly into the hunt for yields. Nevertheless, the durability of this monetary impulse is highly questionable. As for fundamentals, we currently do not expect much momentum, even though valuations are at modest levels. All in all, we thus expect to see moderate performance by the **ATX** in the second quarter and have a **"Hold" recommendation** for this market.

Financial analyst: Johannes Mattner, CFA, RBI Vienna

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

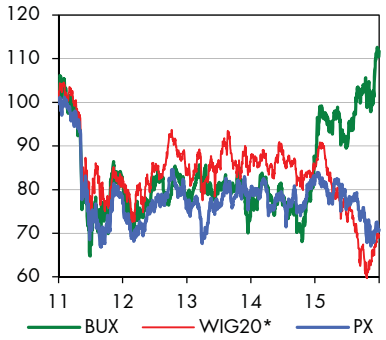
	29-Mar[1]	Jun-16	Sep-15	Dec-16	Mar-17
12-months forward earnings	210.8	183.1	192.4	201.6	210.6
Bond yield forecast	0.35	0.45	0.60	0.90	0.95
Earnings yield less bond yield (EY-BY)	**9.11**	**7.50**	**8.25**	**8.00**	**8.75**
ATX-forecast based on EY-BY		2304	2173	2265	2171
ATX-forecast	**2,228.3**	**2,280**	**2,170**	**2,250**	**2,150**
Expected price change		2.3%	-2.6%	1.0%	-3.5%
Range		1,950-2,450	1,850-2,400	1,900-2,400	1,900-2,400
P/E based on 12-month forward earnings	10.6	12.4	11.3	11.2	10.2

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

Expansive monetary policy as a supportive factor

- **No lasting impact anticipated from the interest rate trend in the USA**
- **Moderate valuations for most CEE indices**
- **Oversupply of crude oil should diminish in H2 2016**
- **Possible normalisation of political relations with Russia**

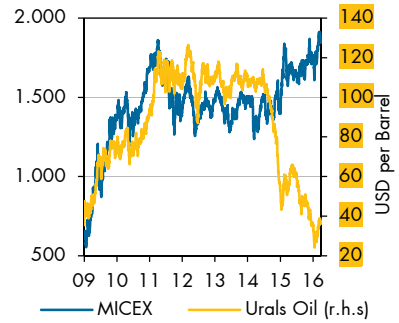
CE core equity indices



In local currency
** Due to the short data history of the WIG 30 index we still use the WIG 20 for this chart*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Once again, the performance of the CEE equity markets was varied in Q1 2016: while the indices in Turkey, Russia, Hungary, and Poland saw very favourable performance, the other indices we monitor in the Czech Republic, Romania, and Croatia have suffered from negative performance since the beginning of the year. With this, the latter group had good company as most of the Western European stock market indicators (DAX, Euro STOXX 50, etc.) have also experienced significant pressure since the start of the year. This was triggered by worries about growth in China, as well as by falling commodity prices, for example for oil. Even though these subjects have faded from the view of international investors, this does not mean that these uncertainties have all simply disappeared. Nevertheless, the main focus of attention will probably continue to be the monetary policy of the central banks, as the ECB recently loosened its already ultra-expansive policy even more and the US Fed revised its path for interest rates significantly lower (only two rate hikes, instead of four as previously anticipated). Thus, due to the still high level of liquidity and our expectations of solid economic performance, there should hardly be any headwinds for European equities, and this should also have a supportive effect for the CEE region.

MICEX vs oil price



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

The Russian economy remains mired in recession in 2016. Nonetheless, this has not prevented the **Russian MICEX** index from surging almost to a new all-time high, propelled by the latest rebound in oil as the price for a barrel of North Sea Brent advanced by around 48% from its January low. Regarding the outlook over a one-year horizon, we take a fundamentally optimistic view of Russian equities. On the one hand, this is supported by further price increases for oil, with our forecasts showing a price of USD 50 per barrel by the end of the year. On the other hand, if the economic sanctions against Russia are gradually eased or dismantled completely in the medium-term, sentiment in favour of the Russian financial market would improve considerably. Regaining access to the Western capital markets would clearly be a positive development for Russian energy firms and banks. Normalisation of political relations would also tend to strengthen the rouble, and appreciation would have a turbo-charging effect for foreign investors. As there continues to be oversupply on the oil market right now, we expect disappointing results from the meeting of the major oil producing countries in mid-April and a better balance between supply and demand will probably only de-

Value matrix stock markets

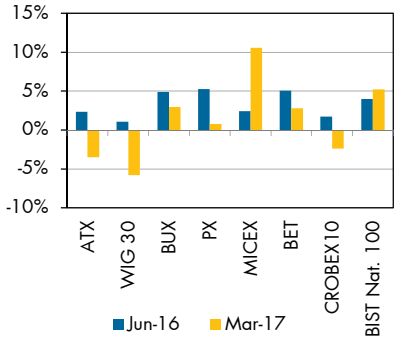
	PL		HU		CZ		RU		RO		HR		TR	
Politics	4	(4)	2	(2)	2	(2)	3	(4)	3	(3)	3	(3)	3	(4)
Interest rate trends	2	(2)	1	(1)	1	(1)	3	(3)	2	(2)	2	(2)	4	(4)
Earnings outlook	2	(4)	2	(1)	2	(4)	3	(3)	2	(2)	4	(2)	2	(1)
Key sectors	4	(4)	2	(2)	3	(2)	2	(2)	2	(2)	2	(2)	2	(2)
Valuation (P/E)	2	(2)	2	(2)	2	(2)	1	(1)	1	(2)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

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

velop during the second half of the year. Accordingly, we do not believe that the recovery, which has been mainly driven by oil price developments recently, will continue in the second quarter. **Hold.**

At the start of year, the Polish stock market index **WIG30** lost almost 10%, but then profited disproportionately strongly from the improvement in international sentiment, and consequently its performance since the beginning of the year rose to 4.9%. Along with the rebound in commodity prices (including oil), the index has also been supported by the robust economic conditions. That said, the political uncertainties remain (special taxes in the retail business, major burdens for the banking sector implied by the conversion of CHF loans, worries about the independence of institutions, etc.); amongst other things, this also led to a rating downgrade by S&P in mid-January. With the political developments, additional downgrades by other rating agencies cannot be completely ruled out. Due to the base effect (the aggregate decline in earnings for 2015 came in at -57%, which was far more severe than expected), on a fundamental basis the aggregate increase in earnings for 2016 is projected at 354%, and we view the resulting valuation (2016e P/E ratio of 13.4) as moderate in historical terms. Despite the quite solid fundamental conditions, we also take into account the political risks, in particular in relation to the banking sector which is heavily weighted in the Polish index, and consequently we opt for a cautious position, both for the coming quarter and over a one-year horizon. **Hold.**

Expected index performance



Source: RBI/Raiffeisen RESEARCH

Indices in performance comparison

	2007	2008	2009	2010	2011	2012	2013	2014	2015	29-Mar-16[1]
ATX	1.1%	-61.2%	42.5%	16.4%	-34.9%	26.9%	6.1%	-15.2%	11.0%	-7.0%
BUX	5.6%	-53.3%	73.4%	0.5%	-20.4%	7.1%	2.2%	-10.4%	43.8%	7.6%
WIG 20[2]	5.2%	-48.2%	33.5%	14.9%	-21.9%	20.4%	-7.0%	-3.5%	-19.7%	5.1%
PX	14.2%	-52.7%	30.2%	9.6%	-25.6%	14.0%	-4.8%	-4.3%	1.0%	-6.6%
MICEX	11.5%	-67.2%	121.1%	23.2%	-16.9%	5.2%	2.0%	-7.1%	26.1%	4.8%
BET	22.1%	-70.5%	61.7%	12.3%	-17.7%	18.7%	26.1%	9.1%	-1.1%	-4.2%
CROBEX	63.2%	-67.1%	16.4%	5.3%	-17.6%	0.0%	3.1%	-3.1%	-2.8%	-1.8%
BIST Nat. 100	42.0%	-51.6%	96.6%	24.9%	-22.3%	52.6%	-13.3%	26.4%	-16.3%	14.0%
CECE Composite Index	10.5%	-53.7%	40.5%	15.7%	-29.1%	25.7%	-9.6%	-6.0%	-12.4%	1.9%
DAX	22.3%	-40.4%	23.8%	16.1%	-14.7%	29.1%	25.5%	2.7%	9.6%	-8.0%
Euro Stoxx 50	6.8%	-44.4%	21.1%	-5.8%	-17.1%	13.8%	17.9%	1.2%	3.8%	-8.0%
S&P 500	3.5%	-38.5%	23.5%	12.8%	0.0%	13.4%	29.6%	11.4%	-0.7%	0.5%
MSCI World	2.8%	-40.1%	22.8%	7.8%	-7.6%	13.1%	26.3%	7.7%	0.2%	-2.7%

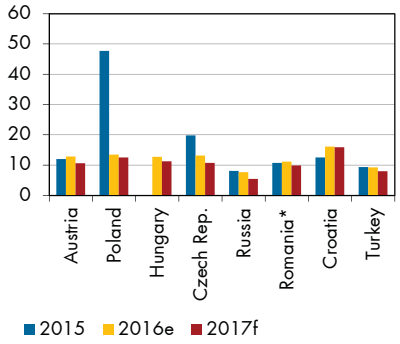
In local currency
[1] 11:59 p.m. (CET)
[2] Due to the short data history of the WIG 30 index we still use the WIG 20
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

Stock market indicators

	Long-term earnings growth	Earnings growth			Price/earnings ratio			Dividend yield
		15	16e	17f	15	16e	17f	16e
ATX	4.2%	73.7%	-11.7%	21.0%	12.0	12.8	10.6	2.9%
WIG 30	2.9%	-56.5%	354.2%	6.9%	47.7	13.4	12.6	3.9%
BUX	3.6%	n.a.	n.a.	13.7%	n.a.	12.8	11.2	3.1%
PX	3.7%	n.a.	2.0%	21.6%	19.8	13.1	10.8	5.2%
MICEX	3.4%	17.2%	-15.5%	39.7%	8.1	7.7	5.5	4.5%
BET*	5.1%	-43.1%	41.8%	12.4%	10.7	11.2	9.9	4.7%
CROBEX10	2.0%	224.8%	-56.5%	1.0%	12.5	16.1	16.0	2.8%
BIST Nat. 100	4.8%	-10.3%	11.1%	16.2%	9.3	9.3	8.0	2.8%

** Romania (BET) excl. Fondul Proprietatea*
Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

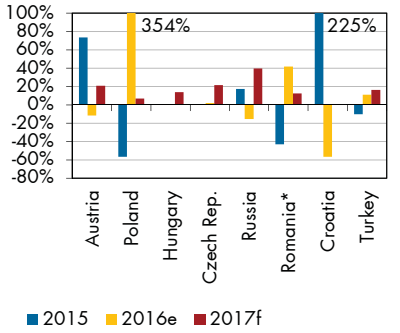
P/E ratios in comparison



** Romania (BET) excl. Fondul Proprietatea*
Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

With a gain of about 4.2% in March, the performance of the **Czech** leading index **PX** was good. Nevertheless, measured since the beginning of the year the index shows a loss of around 6.6%. Although securities from the banking and insurance sector profited from the latest ECB measures, the index heavyweight VIG posted weak quarterly figures and announced a dividend cut of more than 50%, which also resulted in painful losses for the PX index itself. In terms of fundamentals, things still look good in the Czech Republic: along with a decline in the rate of unemployment to 6.3% in February, some 27,000 new companies were formed in 2015 (best figure since 2007). According to PM Sobotka, the rate of employment is currently at 71%, which is the highest level since the Czech Republic became an independent state in 1993. The anticipated aggregate earnings increase for the index in 2016 now amounts to 2%. This translates to an expected P/E ratio of 13.1 for 2016, which is moderate by historical standards. In line with the solid economic prospects (2016e GDP: 2.4%), we expect good performance by the Czech PX index. **Buy.**

Earnings growth



** Romania (BET) excl. Fondul Proprietatea*
Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

The **Hungarian** stock market index **BUX** fell by 5.8% in the first half of the quarter, before profiting strongly from the international recovery and ending the period with a gain of 7.6%. One positive aspect for the Hungarian equity market should be the robust economic performance in Hungary, as we expect to see another rate cut of 20 basis points to 1.0% in the first half of 2016. Furthermore, thanks to the improved fundamental data we see an elevated probability of an upgrade into investment grade territory during the next review by the international rating agencies (Moody's changed the rating outlook to positive in November 2015). As a result of the data aggregated for the index (in particular due to the negative results posted by the oil and gas company MOL), a loss was reported for the BUX in 2015, and consequently it is not arithmetically possible to present estimated earnings growth for 2016. The resulting 2016e P/E ratio of 12.8 which is expected by consensus is moderate in our view. **Buy.**

More expansive monetary policy in Europe and the delays to the Fed's interest rate hikes had a clearly positive effect on the lira last quarter as well as on the **Turkish BIST National 100** index, which was able to boost its gain since the beginning of the year to almost 14%. Despite the latest increases, the valuation is still seen as moderate. Based on an aggregate earnings increase of 11%, this results in an estimated 2016 P/E ratio of 9.3 on an index basis. We see good sup-

Index estimates

	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17	Recommendation
ATX	2,228	2,280	2,170	2,250	2,150	**HOLD**
Performance		2.3%	-2.6%	1.0%	-3.5%	
Range		1,950-2,450	1,850-2,400	1,900-2,400	1,900-2,400	
WIG 30	2,177	2,200	2,100	2,200	2,050	**HOLD**
Performance		1.1%	-3.5%	1.1%	-5.8%	
Range		2,000-2,400	1,900-2,300	2,000-2,400	1,900-2,300	
BUX	25,737	27,000	25,700	27,000	26,500	**BUY**
Performance		4.9%	-0.1%	4.9%	3.0%	
Range		24,000-28,000	23,000-28,000	23,500-28,000	23,500-28,000	
PX	893	940	890	930	900	**BUY**
Performance		5.2%	-0.4%	4.1%	0.8%	
Range		875-1000	830-950	870-990	840-960	

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

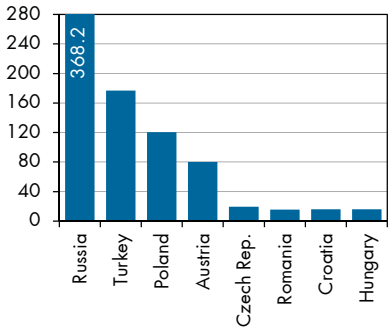
port for corporate earnings, with an eye to economic conditions including 2016e GDP growth of +3%. As for the refugee crisis, successful implementation of the agreement may help progress in approximation with the EU, which would have a positive long-term effect on the stock market in Istanbul. **Buy.**

Since hitting a low in February, the **Romanian BET** index has gained around 11.7%, led by the energy sector. Nevertheless, since the beginning of the year the index still reflects a loss of almost 4.2%. Winners also included stocks from the financial sector. Although the Parliament passed the controversial law which allows borrowers to cancel their debts by signing over mortgaged real estate, the request of the Romanian central bank was taken into consideration, insofar as the law only applies to loans up to a value of EUR 150,000. Fundamentally speaking, we are convinced that the BET index has more upside potential over the long run. Economic data remain robust (2016e GDP growth: 4.0%) and a 2016e P/E ratio of 11.2, which is moderate in historical terms. This should provide fertile conditions for the BET over the coming 12 months. **Buy.**

In contrast to most of its Eastern European counterparts, the Croatian **CROBEX10** index was unable to participate in the powerful recovery on the international financial markets in March. Since beginning of year the index has posted a loss of almost 2%. As part of the regular review of the index, the automotive industry supplier AD Plastik was removed from the CROBEX10 index as of 29 March and replaced with the freezer and ice producer Ledo. The latter had been removed from the index back in September of the previous year, due to lack of liquidity. In order to stimulate the economy, the new government wishes to focus on infrastructure and energy. However, urgently needed structural reforms and the necessary budget consolidation must be launched as well. Due to the lack of progress in implementing last year's proposals by the European Commission, Croatia may be the first country subjected to the Excessive Imbalance Procedure (EIP). The country's difficult situation is reflected by the 18.5% rate of unemployment in January and the latest rating downgrade (from Ba1 to Ba2) with a negative outlook by Moody's. Considering the estimated aggregate 2016e P/E ratio of 16.1 on an index basis, we currently see little upside potential for prices in the CROBEX10. **Hold.**

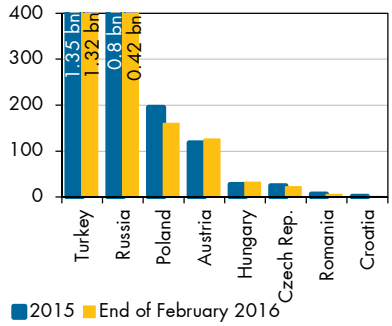
Financial analysts: Aaron Alber, Andreas Schiller, Christoph Vahs; RBI Vienna

Market capitalisation overview



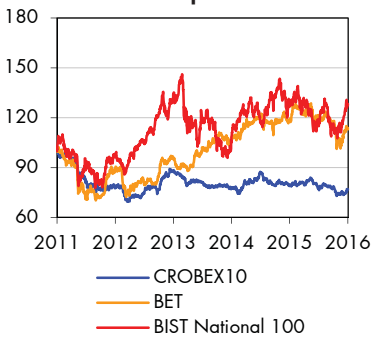
In EUR bn; end of February 2016
Source: FESE, WFE, ZSE, RBI/Raiffeisen RESEARCH

Avg. daily turnover (EUR mn)



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

SEE indices in comparison



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Index estimates

	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17	Recommendation
MICEX	1,845	1,890	2,000	2,020	2,040	**HOLD**
Performance		2.4%	8.4%	9.5%	10.6%	
Range		1,700-2,100	1,800-2,200	1,900-2,200	1,900-2,200	
BET	6,712	7,050	6,750	7,000	6,900	**BUY**
Performance		5.0%	0.6%	4.3%	2.8%	
Range		6,550-7,550	6,300-7,200	6,500-7,500	6,400-7,400	
CROBEX10	973	990	960	980	950	**HOLD**
Performance		1.7%	-1.4%	0.7%	-2.4%	
Range		920-1,060	890-1,030	910-1,050	880-1,020	
BIST National 100	81,734	85,000	83,000	84,000	86,000	**BUY**
Performance		4.0%	1.5%	2.8%	5.2%	
Range		75,000-90,000	73,000-88,000	75,000-88,000	80,000-90,000	

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

Stock Markets: Mixed Picture

ATX

.ATX, 30.03.2016 02:30 p.m. CET, 5y high: 2,920, 5y low: 1,653
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

ATX

Last: 2,271 **~BULLISH**

The current congestion in between 2,200 – 2,335 same as the downward-trend (since 15.05.2015) would have to be left behind in order to raise the likelihood of an increase towards 2,370 – 2,500.

As long as this bullish confirmation is lacking, a decline back towards 1,915 and even 1,700 cannot be fully excluded.

Position:

Buy 2,430 -> 2,520 – 2,660
Sell 2,280 -> 2,175 – 2,000

BIST National 100

.XU100, 30.03.2016 11:25 a.m. CET, 5y high: 93,179, 5ylow: 49,622
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

BIST National 100

Last: 82,719 **~BULLISH**

The Triangle within range 69,790 – 90,730 (blue lines) has held firm at its lower band and subsequently 75,330 (-> 84,355 – 90,640) been triggered.

The next major resistance would be 93,400 that would have to get crossed in order to confirm bullishness and the respective targets, e.g., 113,660 and 127,200.

Position:

Long -> 90,640 – 113,660
Sell 79,090

BUX

.BUX, 30.03.2016, 11:45 a.m. (CET), 5y high 26,314, 5y low 14,930
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

BUX

Last: 26,178 **BULLISH**

Since the bullish confirmation at 24,535 an advance towards 30,000 is expectable. This bullish outlook is backed-up by the currently evolving pattern, a so-called bullish Flag.

This pattern's targets should be 28,000 and 29,470. The next bullish signal should be expectable soon, at 26,480.

Position:

Long -> 28,000 – 30,000
Stop 25,320

CROBEX 10

Last: 977 **~BULLISH**

The major support 940 has held firm again yet an increase to in beyond of the resistance area 1,000 – 1,030 would be required in order to confirm the further increase towards 1,090.

In case of failure re-testing of the all-time low 874 (-> 840) would most likely be expectable – triggering of the stop would be the second respective signal.

Position:

Long -> 1,000 – 1,030

Stop 950

CROBEX

.CROBEX10, 30.03.2016 11:55 a.m. CET, 5y high: 1,272, 5y low: 879
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

MICEX

Last: 1,866 **~BULLISH**

Subsequent to the bullish signal at 1,785 only the first respective target 1,875 had been hit, but still the rising-resistance line at 2,100 could get climbed towards once 1,924, the high as of 18.03.2016, has been crossed.

A setback towards 1,780 cannot be excluded, but should provide a chance to buy at the cheap.

Position:

Long -> 1,960 – 2,100

Stop 1,780

MICEX

.MCX, 30.03.2016 12:15 a.m. CET, 5y high: 1,914, 5y low: 1,237
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

WIG 30

Last: 2,207 **BULLISH**

Since the buy-signal at 2,060 the target had been 2,215. As this line is about to getting crossed bullish continuation towards 2,340 – 2,410 should be in the cards.

Once the latter target will have been hit the stop should get trailed closer in order to fend-off a possible pullback towards 2,260.

Position:

Long -> 2,340 – 2,410

Stop 2.140

WIG 30

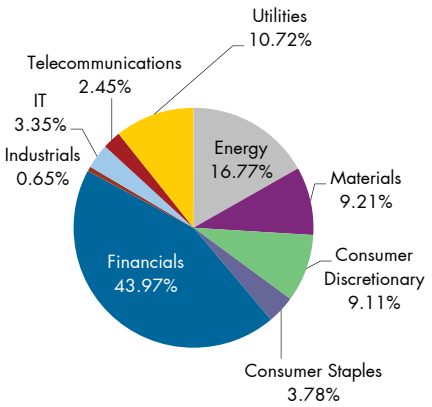
.WIG30, 30.03.2016 01:00 p.m. CET, 5y high: 2,775, 5y low: 1,879
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Financial analyst: Robert Schittler, RBI Vienna

Sector weightings in comparison

Sector weightings Poland, WIG 30

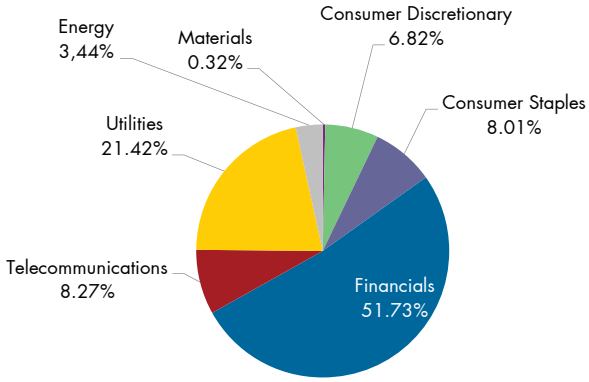
Dom. market cap.: EUR 120,353 bn (Source: FESE; 29-Feb. 2016)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Czech Republic, PX

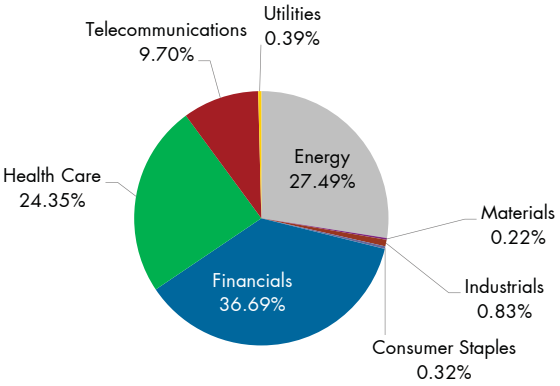
Dom. market cap.: EUR 19,611 bn (Source: FESE; 29-Feb. 2016)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Hungary, BUX

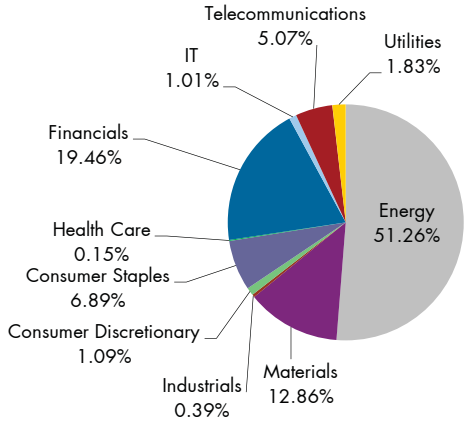
Dom. market cap.: EUR 15,962 bn (Source: FESE; 29-Feb. 2016)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Russia, MICEX

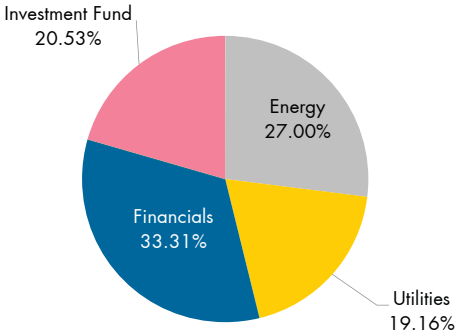
Dom. market cap.: EUR 368,199 bn (Source: WFE; 29-Feb. 2016)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Romania, BET

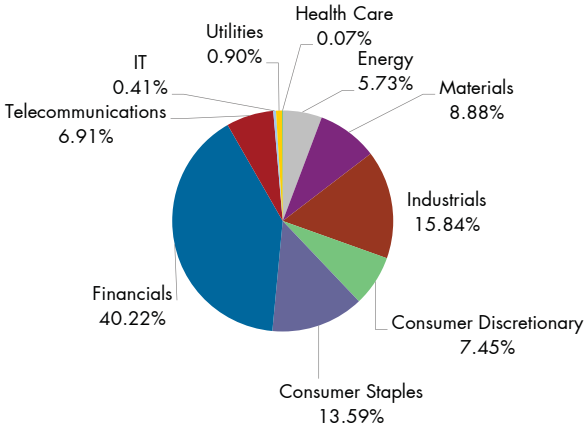
Dom. market cap.: EUR 15,584 bn (Source: FESE; 29-Feb. 2016)



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Sector weightings Turkey, BIST National 100

Dom. market cap.: EUR 176,843 bn (Source: FESE; 29-Feb. 2016)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Banks: We turn more cautious amid regulatory and key rate risks

- **Poland: still unsolved CHF issue might trigger higher volatility of Polish banks**
- **Q1 16 results of PL banks to be burdened by the bank tax; we expect a decline in aggregated net profit by ca. 20% yoy**
- **Romania: After a surprising dividend at TLV we would prefer BRD given the high discount**

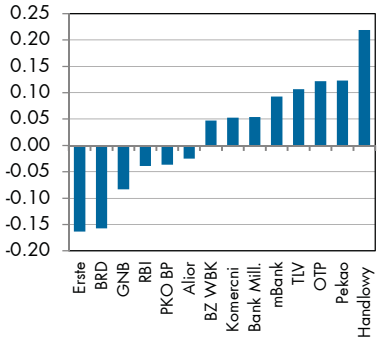
Poland: We believe that regulatory uncertainty will likely persist throughout Q2 16, mainly driven by the ongoing CHF saga. In our opinion, there is little chance for a (reasonable) solution as the current CHF bill appears too harsh to be realistic: the recent KNF publication clearly pointed to potential damage to the industry (PLN 45-67 bn sector impact, in an adverse scenario even up to PLN 107 bn). The market should focus on M&A events that might get a notch closer to materialising (e.g. outstanding BPH sale). Otherwise, (in)direct political involvement could intensify at PKO after several resignations at management level and signals for more supervision (e.g. new strategy, dividend decision, M&A). Our macro team still reckons with no key rate cut in PL due to sound GDP growth, less dovish flags from the new MPC as well as an expected gradual rise of the CPI towards 0% until Q4 16. For Polish banks, Q1 16 will show a new P&L feature, namely the bank tax charge that has been introduced since February 2016. Overall, our Q1 16 forecasts imply an aggregated net profit decline by ca. 20% yoy. We assume mixed core revenues incl. 9% higher NII and flat F&CI yoy, while on the opex front banks could (modestly) surprise. Risk provisioning should remain at pretty healthy levels, though with less room for further reduction yoy. In the current environment going into Q2 16 we would still favour banks with healthy business models and not overly stretched multiples (e.g. BZ WBK), particularly over those with larger CHF exposures that have performed quite well ytd (e.g. mBank).

While we reckon that the solid loan growth will continue in the Czech Republic, Slovakia and Austria, NIM pressure will likely enable only a flattish or slightly negative NII trend at Komercni Banka or Erste Group. Still, we expect the bottom line to remain supported by low risk costs. Also, in Hungary we expect the loan volumes to finally bottom-out, supported by the new housing subsidy scheme, but rate cuts will probably continue to weigh on OTP's NIM. Given the cut in the bank tax in Hungary and lower risk costs in Ukraine and Russia OTP will likely show the most dynamic bottom-line development and get closer to the group's ROE target of >15% by 2017 based on an efficient capital allocation (CET1 target 12.5%).

Romania: As it stands, the walkaway law is likely to be reapproved by Parliament, which might trigger the formation of extra provisions in Q1 16. This should not surprise the market. Moreover, the share seems to at least partially price in the impact of the law. Therefore, we expect a robust performance of the stock in Q2 16. With regard to TLV, the bank surprised with a special dividend which should help it report a stronger ROE than initially expected. After the strong performance of the stock following the announcement of the dividend, we see a muted performance in Q2 16, considering the premium relative to its main peer.

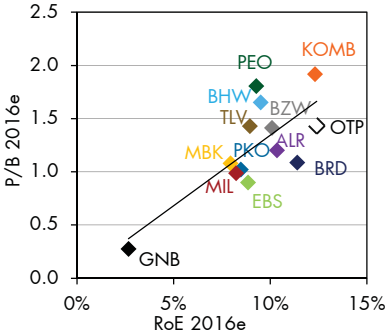
Financial analysts: Jovan Sikimic, Stefan Maxian

YTD stocks performance (in %)



Source: Bloomberg

P/B - RoE 2016e regression

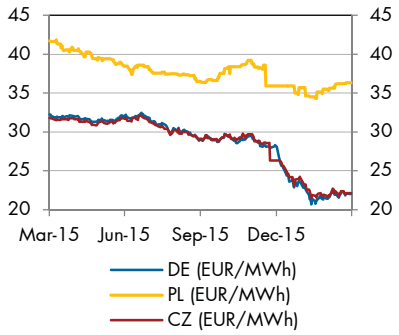


Source: Raiffeisen Centrobank estimates, Bloomberg consensus

Utilities: Can it get any worse?

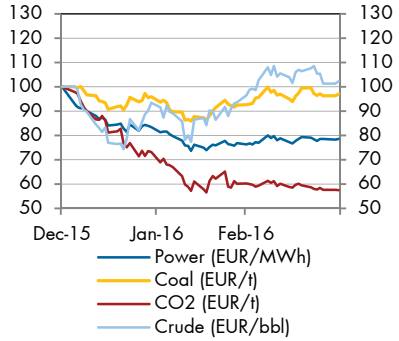
- **Renewed drop of electricity prices; they remain weak, irrespective of oil price rebound**
- **Polish utilities sector reform drags on**
- **BUY recommendations: EVN, CEZ, Energa, Electrica, InterRAO**

Power price premium in Poland



Source: Bloomberg

No recovery of power prices



Source: Bloomberg

The shares of utilities companies displayed heterogenous price trends in the past quarter, but the EuroSTOXX Utilities achieved a slight outperformance after a very weak preceding quarter. Polish utilities even boasted a positive share price development, and the shares of the Russian electricity generator InterRAO even jumped by more than 50% due to an improved cash flow outlook.

EVN reported good results for Q1 15/16 thanks to its largely regulated business model. On the other hand, the crisis facing European electricity generators is clearly reflected in the corporate outlooks of Verbund and CEZ, which were rather disappointing overall and have put a question mark behind the dividend policy in future, let alone any M&A activity. This comes despite massive capex reductions, cost-cutting programmes and a reorientation towards regulated business areas.

The tragedy of the Polish coal industry continues its demise into a farce. Energa, PGNiG and PGE have to contribute a total of PLN 1.5 bn to the newly founded coal holding PGG but are also allowed to invest in new power plants. It is not clear yet whether they might be forced to save other ailing coal companies as well. The finishing touches to the final rescue concept have been in the making for more than a year now, and the most recently mentioned target date for a new energy concept in April can probably not be kept either. In addition, the management teams – which the new government has largely appointed only recently – are still waiting for the state doctrine regarding dividend distribution. At the same time, wholesale electricity prices in Poland are more than 60% above the levels of those prevailing in neighbouring countries. While this is still not enough to justify the construction of new coal power plants, it certainly affects the competitiveness of Poland's industrial sector.

Given the continuing addition of renewable generation capacities in Germany and the persistent weakness of coal and CO2 prices (which, contrary to crude oil have shown no significant recovery since the beginning of February), we see hardly any upside potential for the Central European electricity market: even German brown coal power plants are producing at a loss. In parallel, the markets for balancing energy are expanding. Despite Austria's protests, a partial separation of the price coupling between Germany and Austria from 2019 can hardly be avoided. The sector is still in a critical crisis which was precipitated by market interventions on the part of governments. And it can only be solved through the implementation of new rules – be they designed to promote a free market or to establish a re-regulatory regime. We rather favour defensive stocks, above all grid operators.

Financial analyst: Teresa Schinwald

CA Immo: More organic growth ahead

- **Current share price: EUR 16.92**
- **Target price: EUR 19.60**
- **Market capitalisation: EUR 1,621 mn**

CA Immo´s 4Q 2015 results were in-line with our demanding expectations and the operating data improved across the board. We keep our earnings projections unchanged but forecast higher values of NAV now. We reiterated our BUY rating because the group offers 1) the best organic growth within our coverage universe, 2) high-margin disposal gains of its German land reserves over the next two years and 3) attractive valuation with an P/NAV(x) of 0.66 for 2016e.
4Q 2015 review: CA Immo´s earnings were basically in-line with our expectations but property-revaluation gains were far ahead of RCBe. The portfolio vacancy rate fell from 9.3% in 2014 to 7.3% in 2015 thanks to new lettings in Germany, Czech Republic and other regions. Effective cost of debt fell to 3.71% in 4Q, from 4.35% in 3Q.

Guidance of more than 10% growth of FFO I in 2016: Management targets at least 10% growth of FFO I in 2016, which we think is realistic and driven by additional net rental income and lower interest expenses. We keep our 2016e and 2017e FFO I projections unchanged and present 2018e estimates for the first time.

CA Immo vs. ATX

CA Immo: 5y high: 18.49, 5y low: 7.06
ATX: 5y high: 2,681, 5y low: 1,957
Source: Bloomberg

CA Immo offers the best organic growth – within our coverage universe – in the foreseeable future. This is due to its own developments, which will likely add additional rental income and FFO for the group over the next three years. The management plans to monetise EUR 85 mn p.a. of its residential land reserves in Germany, will finance the construction cost for the group´s own property developments.

Valuation/risk factors: Our target price of EUR 19.60 for CA Immo is based on the average of DCF and RoNAV valuation methods. For earnings projections we have not modelled further property acquisitions. The key financial risk factors for the group are 1) a potential loss of tenants or decline of rents/sqm driven by a major economic downturn and 2) unsuccessful property developments.

Financial analyst: Christian Bader

Income statement & balance sheet (IFRS)

in EUR mn	2015	2016e	2017f	2018f
Income Statement				
Consolidated sales	194	209	217	225
EBITDA	149	155	160	152
EBIT	359	154	159	151
EBT	316	116	127	121
Net profit b.m.	221	110	121	116
Net profit a.m.	221	110	121	116
Balance sheet				
Total assets	3,984	4,046	4,109	4,163
Shareholders' equity	2,121	2,182	2,246	2,300
Goodwill	15	15	15	15
NIBD	1,197	1,064	1,024	1,037

Source: CA Immo, Raiffeisen Centrobank estimates

Key ratios

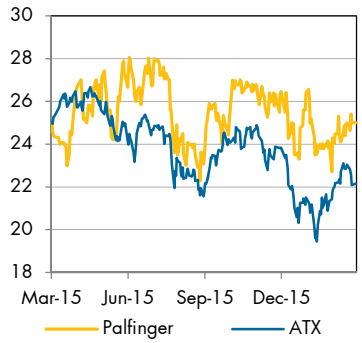
	2015	2016e	2017f	2018f
EPS	2.25	1.15	1.26	1.21
PER	7.5	14.7	13.4	13.9
Operating CF per share	0.77	1.16	1.28	1.23
Price cash flow	21.8	14.5	13.2	13.8
Book value per share	21.90	22.78	23.44	24.01
Price book value	0.8	0.7	0.7	0.7
Dividend yield	3.0%	3.5%	3.8%	3.8%
ROE	10.8%	5.1%	5.5%	5.1%
ROCE	7.8%	4.5%	4.6%	4.4%
EV/EBITDA	17.0	15.8	15.1	16.0

Source: CA Immo, Raiffeisen Centrobank estimates

Palfinger: Good European & US markets to drive earnings growth

- **Current share price: EUR 25.00**
- **Target price: EUR 31.50**
- **Market capitalisation: PLN 933 mn**

Palfinger vs. ATX



Palfinger: 5y high: 33.90, 5y low: 11.59
ATX: 5y high: 2,681, 5y low: 1,957
Source: Bloomberg

As a globally leading manufacturer of hydraulic lifting, loading and handling systems, Palfinger offers a compelling cyclical play. Growth prospects in its most important markets look intact. This holds particularly true for Europe and North America which together account for approx. 3/4 of sales. While some larger European market like Germany and UK should consolidate at high levels, France and Southern Europe continue to recover. Importantly, demand for the cash-cow product loader cranes is growing. Concerning the US market management remarks suggest that – even when adjusting for positive FX effects – the company currently sees double-digit growth rates. Moreover prospects of the business unit marine cranes appear attractive and the company is vocal that further (potentially sizeable) M&A deals are being targeted. For Russia the management expects that a bottoming out in the current year and some impetus should come from the two JVs with Kamaz. The weak dynamics in China remains a drop of bitterness. Concerning its Chinese JV (approx. 5% of group EBIT) with Sany Heavy Industry Palfinger has acknowledged it lags behind the target for domestic sales which however can be compensated for by export business. Palfinger is about to ramp-up production of access platforms which should help to spur the business expansion.

The figures for FY 2015 were supportive for our positive stance. With revenue growth of 16% to EUR 1.23 bn Palfinger comfortably reached its target of > 10% and beat our projection of EUR 1.21 bn. EBIT and margin came in at EUR 104 mn and 8.5%, respectively (4Q contained an extraordinary write-down of EUR 3 mn). The management indicated a positive development of the order intake in recent months. For FY 2016 the company targets top line growth of around 10%. Our unchanged estimate of EUR 1.30 bn implies a slightly more conservative growth rate of 6%. For EBIT we forecast an increase to EUR 117 mn.

Financial analyst: Markus Remis

Income statement & balance sheet (IFRS)

in EUR mn	2015	2016e	2017f	2018f
Income Statement				
Consolidated sales	1,230	1,302	1,367	1,420
EBITDA	145	160	169	182
EBIT	104	117	125	136
EBT	93	106	114	126
Net profit b.m.	72	82	89	98
Net profit a.m.	64	74	80	88
Balance sheet				
Total assets	1,212	1,263	1,309	1,346
Shareholders' equity	491	544	600	662
Goodwill	127	127	127	127
NIBD	352	349	337	311

Source: Palfinger, Raiffeisen Centrobank estimates

Key ratios

	2015	2016e	2017f	2018f
EPS	1.73	1.99	2.16	2.37
PER	15.3	12.6	11.6	10.6
Operating CF per share	2.97	2.50	2.90	3.36
Price cash flow	8.9	10.0	8.6	7.4
Book value per share	13.16	14.58	16.08	17.73
Price book value	2.0	1.7	1.6	1.4
Dividend yield	2.2%	2.6%	2.8%	3.1%
ROE	13.9%	14.3%	14.1%	14.0%
ROCE	9.1%	9.7%	10.0%	10.4%
EV/EBITDA	8.1	7.1	6.6	6.0

Source: Palfinger, Raiffeisen Centrobank estimates

Cyfrowy Polsat: With Midas on board on track towards dividend

- **Current share price: PLN 24.65**
- **Target price: PLN 27.70**
- **Market capitalisation: EUR 3,711 mn**

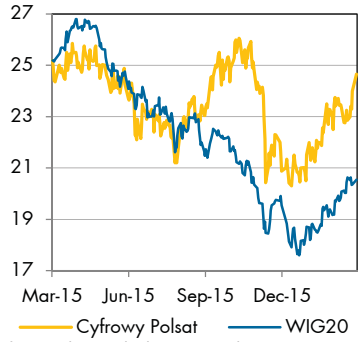
The long-awaited acquisition of Midas was completed in Q1 16, which simplifies the group's structure and reduces the risk of corporate governance issues, in our view. We remain bullish on Polsat as a solid defensive pick with some cyclical exposure to booming advertising. Low capex needs (no spending on 800 MHz spectrum) should translate into a quick deleveraging with the first dividend payment possible in 2017e or 2018e. Cyfrowy Poslat purchased Midas for an EV of PLN 1.8 bn, which should help secure up to PLN 400 mn of yearly EBITDA in the long term. Midas controls the key spectrum in the 1,800 MHz band (a 20 MHz block) and owns a majority stake in Sferia that has a renewal option for a 5 MHz block in the recently auctioned 800 MHz spectrum.

There are no signs of a change in the good operating trends seen in Q4 15. TV Polsat should maintain its quick advertising revenue growth and may outperform the TV ad market again in Q1 16e, Polkomtel is likely to lose voice clients at a slower pace than at the beginning of the past year, while broadband subscriptions are still robustly growing. Lower revenues from domestic roaming (cooperation with Play) and falling retail revenues due to lower voice ARPU in 2016e may harm EBITDA, but on the other hand, additional cost savings in the long-lasting integration process with Polkomtel as well as the incorporation of Midas (no need to purchase data transmission capacity) may support the result.

Regulatory risks are fading in the media segment, in our opinion. While we had feared that the media bill on public TV financing could trigger extra fees for private players, it seems that this scenario could be avoided. The recent proposal assumes that every household would simply add PLN 15 per month to the electricity bill, which would suffice to gather the amount needed, especially if public TV continues to sell advertising. The small fee in the electricity bill would soon be accepted and should not be associated by a consumer with television (therefore there is little risk for Polsat's low-end clients, in our view).

Financial analyst: Dominik Niszcz, CFA

Cyfrowy Polsat vs. WIG20



Cyfrowy Polsat: 5y high: 27.80 5y low: 12.70
WIG20: 5y high: 2,933, 5y low: 1,675
Source: Bloomberg

Income statement & balance sheet (IFRS)

in PLN mn	2015	2016e	2017f	2018f
Income Statement				
Consolidated sales	9,823	9,488	9,470	9,543
EBITDA	3,685	3,548	3,626	3,697
EBIT	1,986	1,841	1,884	2,022
EBT	1,332	1,369	1,307	1,606
Net profit b.m.	1,163	1,177	1,111	1,301
Net profit a.m.	1,163	1,177	1,111	1,301
Balance sheet				
Total assets	26,490	27,124	27,230	26,997
Shareholders' equity	10,250	11,427	12,538	13,283
Goodwill	10,606	11,385	11,385	11,385
NIBD	10,864	11,091	9,531	8,482

Source: Cyfrowy Polsat, Raiffeisen Centrobank estimates

Key ratios

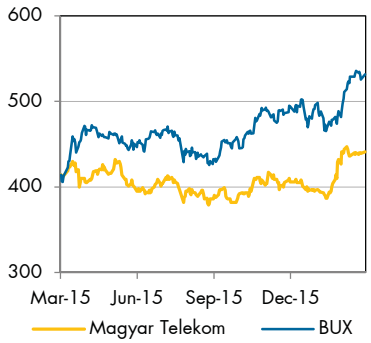
	2015	2016e	2017f	2018f
EPS	1.82	1.84	1.74	2.03
PER	11.5	13.4	14.2	12.1
Operating CF per share	4.52	4.33	4.31	4.46
Price cash flow	4.6	5.7	5.7	5.5
Book value per share	16.03	17.87	19.60	20.77
Price book value	1.3	1.4	1.3	1.2
Dividend yield	0.0%	0.0%	3.5%	4.1%
ROE	12.0%	10.9%	9.3%	10.1%
ROCE	8.2%	5.1%	4.7%	5.5%
EV/EBITDA	6.6	7.6	7.0	6.6

Source: Cyfrowy Polsat, Raiffeisen Centrobank estimates

Magyar Telekom: Foundations in place for record earnings

- **Current share price: HUF 510.0**
- **Target price: HUF 441.0**
- **Market capitalisation: EUR 1,466 mn**

Magyar Telekom vs. BUX



Magyar Telekom 5y high: 614.0; 5y low: 274.0
BUX 5y high: 25,939; 5y low: 19,655
Source: Bloomberg

The times ahead of MTEL are promising, in our view: a) projects under the Digital Welfare program should feed the growth of the broadband customer base (offering x-sell opportunities) and provide some utility tax relief, b) competitively the company seems as strong as ever in its home market, and c) we expect a favourable macro environment to persist in Hungary, which in our view also contributes to a more agreeable regulatory outlook than over the last years. While the 16e top line should decrease yoy (MTR cuts, exit from energy, non-repeatable IT projects) the profitability profile should improve considerably due to a reinforced focus on core telecom activities.

We expect MTEL to win about 50% of the broadband projects under the Digital Welfare. Decisions on awarding the first round of projects should be published in April. On average 70% of the investment will be covered by the EU. MTEL capex guidance of around HUF 190 bn for 2016e-17e includes these projects, thus we see the risk to the target DPS 16 of HUF 25 as rather limited from the capex side. We assume for the time being that the company will be able to maintain the HUF 25 pay-out level in 2017e-18e as well. We expect MTEL to decrease its utility tax by 5% yoy in 2016e due to the law allowing for a 5-yr reduction of the utility tax for the length of developed network that would enable a transfer speed of at least 100 Mbps. In 2H 16 we expect MTEL to present a strategic plan up to 2020e which we expect to detail a focus on profitable core activities following the sale of the media company Origo and an exit from the utility business. The 16e guidance of EBITDA of HUF 187-191 bn on revenues of HUF 580-590 bn seems achievable. We note that MTEL beat its last guidance by 4.8% on revenue and by 3.4% on EBITDA. We see an upside to our 17e estimates from a potential cut of the telecom tax due to an improved fiscal situation. We would see a deterioration of the macro situation and more aggressive competition than expected from Digi and UPC as the biggest risks to our estimates.

Financial analyst: Jakub Krawczyk

Income statement & balance sheet (IFRS)

in HUF mn	2015	2016e	2017f	2018f
Income Statement				
Consolidated sales	656,342	588,785	595,261	601,214
EBITDA	187,301	186,974	190,620	194,323
EBIT	73,517	67,273	67,091	65,416
EBT	45,341	40,096	40,095	38,994
Net profit b.m.	31,547	25,728	25,716	24,806
Net profit a.m.	27,715	20,867	20,760	19,753
Balance sheet				
Total assets	1,207,024	1,164,114	1,184,289	1,141,453
Shareholders' equity	500,218	505,449	500,150	493,845
Goodwill	217,935	217,935	217,935	217,935
NIBD	385,642	367,307	341,426	306,145

Source: Magyar Telekom, Raiffeisen Centrobank estimates

Key ratios

	2015	2016e	2017f	2018f
EPS	26.59	20.02	19.92	18.95
PER	15.3	22.0	22.1	23.3
Operating CF per share	149.95	137.24	142.85	147.16
Price cash flow	2.7	3.2	3.1	3.0
Book value per share	479.89	484.91	479.83	473.78
Price book value	0.8	0.9	0.9	0.9
Dividend yield	3.7%	5.7%	5.7%	5.7%
ROE	5.7%	4.1%	4.1%	4.0%
ROCE	5.2%	4.5%	4.5%	4.4%
EV/EBITDA	4.6	4.6	4.4	4.1

Source: Magyar Telekom, Raiffeisen Centrobank estimates

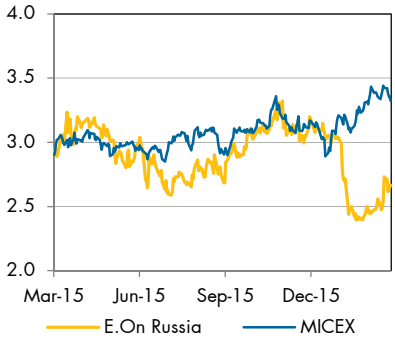
E.On Russia: Things are never as bas as they seem

- **Current share price: RUB 2.63**
- **Target price: RUB 3.00**
- **Market capitalisation: EUR 2,155 mn**

Given our expectation of lower crude oil prices, we believe that dividend plays that could grant some protection against a market drop could be a better exposure among Russian stocks. Among dividend plays we still like E.On Russia, which has been severely punished by the market after an accident at the new block of the Berezovskaya power plant. E.On Russia is still the most efficient and the most profitable thermal GenCo in Russia, which remains in the FCF-positive zone even without contributions from the new unit that is not operating after a severe fire. The company's CEO commented that management plans to pay out 80% of RAS net income. This means a dividend per share of RUB 0.197, which translates into a 7.5% dividend yield at the current market price. Moreover, there were some comments concerning insurance related to the accident which we treat as supportive for the stock. There was some compensation of „lost revenues" related to the accident at Surgutskaya TPP, and Berezovskaya new block was insured with a similar structure of contract. Therefore, the insurance proceeds could compensate for the lost revenues of the new block for up to 12 months. Higher than expected insurance payments (which we currently conservatively assume at 70% of the capex required to relaunch the block) could sweeten the investment case. Even more importantly, the management commented that the „dividend outlook remains the same" and that the company would still generate enough FCF to finance the restoration even after the dividend payment. We believe that these comments underline the fact that E.On Russia remains a strong dividend play. We believe that the market reaction seen after the fire that happened on February 1 was broadly a result of market fears that E.On Russia could depart from its generous dividend policy to focus on the restoration of the unit. We expect that the return to 100% payout – which should happen in FY 17e – should result in a double-digit dividend yield. The absence of significant opportunities for investments in Russia supports the idea of paying as high a dividend as the company could sustain.

Financial analyst: Fedor Kornachev

E.On Russia vs. MICEX



E.On Russia: 5y high: 3.32, 5y low: 1.96
MICEX: 5y high: 1,914, 5y low: 1,237
Source: Bloomberg

Income statement & balance sheet (IFRS)

in RUB mn	2015	2016e	2017f	2018f
Income Statement				
Consolidated sales	76,706	81,080	85,978	101,894
EBITDA	22,212	26,106	29,039	41,347
EBIT	14,573	18,490	20,993	33,324
EBT	17,421	20,702	33,628	34,836
Net profit b.m.	13,676	16,562	26,902	27,869
Net profit a.m.	13,676	16,490	26,831	27,797
Balance sheet				
Total assets	126,765	132,894	143,682	146,105
Shareholders' equity	109,907	118,318	128,658	129,625
Goodwill	0	0	0	0
NIBD	-9,506	-2,439	-10,250	-13,992

Source: E.On Russia, Raiffeisen Centrobank estimates

Key ratios

	2015	2016e	2017f	2018f
EPS	0.19	0.26	0.43	0.44
PER	16.7	10.1	6.2	6.0
Operating CF per share	0.37	0.38	0.55	0.57
Price cash flow	8.5	6.9	4.8	4.7
Book value per share	1.74	1.88	2.04	2.06
Price book value	1.8	1.4	1.3	1.3
Dividend yield	6.2%	9.9%	16.2%	16.8%
ROE	12.3%	14.4%	21.7%	21.5%
ROCE	n.a.	14.4%	21.7%	21.5%
EV/EBITDA	8.0	6.3	5.4	3.7

Source: E.On Russia, Raiffeisen Centrobank estimates

Risk notifications and explanations

Warnings

- Figures on performance refer to the past. Past performance is not a reliable indicator for future results and the 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 of a financial instrument, a financial index or a securities service is reduced by commissions, fees and other charges, which depend on the individual circumstances of the investor.
- The return on an investment in a financial instrument, a financial or securities service 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 future results and the development of a financial instrument, a financial index or a securities service.

Raiffeisen Bank International AG (hereinafter "RBI") is responsible for the information and recommendations in this publication which are prepared by analysts from subsidiary banks listed in this publication or from Raiffeisen Centrobank (hereinafter "RCB").

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

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

The distribution of all recommendations relating to the calendar quarter prior to the publications date, as well as the distribution of recommendations in the context of which investment banking services within the meaning of § 48f (6) Z 6 Stock Exchange Act (BörseG) have been provided in the past 12 months, are available under: www.raiffeisenresearch.com/distribution_of_recommendation

Corporate Credits

Recommendations history for 12 months

GAZPROM	Start of coverage	17/04/2008
	Date of recommendation	Recommendation
GAZPRU 5.999% due 2021	07/05/2015	Buy
GAZPRU 4.950% due 2022	16/10/2015	Sell
GAZPRU 8.265% due 2034	10/02/2016	Buy

EVRAZ	Start of coverage	06/05/2009
	Date of recommendation	Recommendation
EVRAZ 9.500% due 2018	06/05/2015	Sell

HALYK BANK	Start of coverage	17/04/2008
	Date of recommendation	Recommendation
HSBKKZ 7.250% due 2017	09/07/2015	Buy

SEVERSTAL	Start of coverage	14/05/2008
	Date of recommendation	Recommendation
CHMFRU 5.900% due 2022	09/07/2015	Buy

Bonds

Financial instruments/Company	Date of the first publication
Eurobonds	01/01/2001
LCY bonds	01/01/1997

Recommendations history: Local currency government bonds (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	
24/03/2015	Hold	Hold	Hold	Hold	Buy	Hold	Hold	Sell	Hold	Hold	Hold	Sell	Buy	Buy	Buy	Hold	Hold	Sell	Sell	Sell	Buy	Hold	Hold	Sell
28/04/2015	I	I	I	I	I	I	I	I	I	I	I	Hold	Hold	Hold	Hold	Hold	Buy	Hold	Hold	I	I	I	I	Hold
15/05/2015	I	Buy	Buy	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I
02/06/2015	I	Hold	Hold	I	Hold	I	I	Hold	I	I	I	I	I	I	I	I	I	I	I	Hold	I	Buy	Buy	Buy
24/06/2015	I	I	Buy	I	I	I	Sell	I	I	I	Sell	I	I	I	Sell	I	I	Buy	Buy	I	Sell	Sell	Sell	Sell
06/08/2015	I	I	Hold	I	I	Sell	I	I	I	Sell	I	I	I	Sell	I	I	Hold	Hold	Hold	I	Hold	I	I	Hold
03/09/2015	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	Buy	I	I	I	Buy
22/09/2015	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	Sell	I	I	I
04/11/2015	I	I	I	I	Buy	Buy	Buy	I	I	Hold	Hold	I	I	Hold	Hold	I	I	I	I	Hold	Hold	Hold	Hold	Hold
17/12/2015	I	I	I	I	I	I	I	Buy	Buy	Buy	I	I	Buy	Buy	Buy	Buy	Buy	Buy	I	Buy	I	I	I	I
25/01/2016	I	–	Buy	I	Hold	–	I	Hold	I	–	I	I	Hold	–	Hold	I	–	–	–	–	I	–	I	I
11/02/2016	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	Hold	–	Hold	Hold	I	I	I	I
23/02/2016	I	–	I	I	I	–	I	I	Hold	–	I	I	I	–	I	Hold	I	–	I	I	I	–	I	Buy
24/03/2016	I	–	Hold	I	I	–	I	I	I	–	I	Sell	I	–	I	I	I	–	I	Sell	Sell	–	Sell	Sell

** recommendations based on absolute expected performance in LCY; FX vs EUR; 5y segment not covered anymore*

Recommendations history: Sovereign Eurobonds (I: no change)*

	BG		HR		CZ		HU		KZ		LT		PL		RO	
Date of change	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD
24/03/2015	Hold	–	Hold	Hold	I	I	Hold	Hold	–	–	Buy	Buy	Buy	Hold	Buy	Buy
17/04/2015	I	–	I	I	I	I	I	I	–	–	I	I	I	I	I	I
28/04/2015	I	–	I	I	I	I	I	I	–	–	I	I	I	I	I	I
02/06/2015	Sell	–	I	I	I	I	I	I	–	–	Hold	Hold	I	Buy	Hold	Hold
24/06/2015	Hold	–	I	I	I	I	I	I	–	–	I	I	I	Hold	I	I
06/08/2015	I	–	Sell	Sell	I	I	I	I	–	Buy	Buy	I	Hold	I	I	I
03/09/2015	I	–	I	I	I	I	I	I	–	I	Hold	I	I	I	I	I
22/09/2015	I	–	I	I	I	I	I	I	–	I	I	I	Buy	I	Buy	Buy
07/10/2015	I	–	I	I	I	I	Buy	Buy	–	Hold	I	I	I	I	I	I
04/11/2015	I	–	I	I	I	I	I	I	–	I	Buy	I	I	Buy	I	I
03/12/2015	I	-	I	I	I	I	I	I	-	Buy		I	I			
17/12/2015	I	–	I	I	I	I	I	I	–	I	Hold	I	I	I	I	I
18/01/2016	I	–	I	I	I	I	I	I	–	I	I	I	Hold	Hold	I	I
25/01/2016	I	–	Hold	Hold	I	I	Hold	Hold	–	Hold	I	I	I	I	Hold	Hold
23/02/2016	I	–	I	I	I	I	Buy	Buy	–	Buy	I	I	I	I	I	I
17/03/2016	I	–	I	I	I	I	I	I	–	I	I	I	I	I	I	I
24/03/2016	I	–	I	I	I	I	Hold	Hold	–	I	I	I	I	I	I	I
29/03/2016	Buy	–	I	I	I	I	I	I	–	I	Buy	I	I	Hold	I	I

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

Recommendations history: Sovereign Eurobonds (I: no change)*

	RU		RS		SK		SI		TR		UA		BY	
Date of change	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD
24/03/2015	Buy	Buy	–	Hold	–	–	–	–	Hold	Hold	Sell	Sell	–	Hold
17/04/2015	Hold	Hold	–	I	–	–	–	–	I	I	I	I	–	I
28/04/2015	I	I	–	I	Hold	–	Buy	–	Buy	Buy	Hold	Hold	–	Buy
02/06/2015	I	I	–	Sell	I	–	I	–	I	I	I	I	–	I
24/06/2015	I	I	–	I	I	–	I	–	I	Hold	I	I	–	I
06/08/2015	I	I	–	I	I	–	Hold	–	Hold	I	Sell	Sell	–	Sell
03/09/2015	I	I	–	I	I	–	I	–	I	I	Hold	Hold	–	I
22/09/2015	I	I	–	I	I	–	I	–	Sell	Sell	I	I	–	I
07/10/2015	I	I	–	I	I	–	I	–	I	I	I	I	–	I
04/11/2015	Buy	Buy	–	I	I	–	I	–	Hold	Hold	–	I	–	Hold
03/12/2015	Hold	Hold	–	I	I	–	I	–	I	I	–	Sell	–	I
17/12/2015	I	I	–	I	I	–	I	–	Buy	Hold	–	I	-	I
18/01/2016	I	I	-	I	I	-	I	-	I	I	-	I	-	I
25/01/2016	Buy	Buy	–	I	I	–	Buy	–	I	Buy	–	I	-	I
23/02/2016	I	I	–	Hold	I	–	I	–	I	I	–	I	-	I
17/03/2016	Hold	Hold	–	I	I	–	I	–	I	I	–	I	-	I
24/03/2016	I	I	–	I	I	–	I	–	I	I	–	I	-	I
29/03/2016	I	I	–	I	I	–	I	–	I	I	–	Hold	-	I

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

Equities

Recommendations history (I: no change)

Date	MICEX	WIG 30	PX	BUX	BET	CROBEX 10	BIST 100	ATX
24/03/2015	Buy	Buy	Buy	Buy	Buy	Hold	Buy	Buy
15/05/2015	I	I	I	I	I	I	I	Hold
22/06/2015	I	I	I	I	I	I	I	Buy
24/06/2015	I	Hold	I	I	I	I	Hold	I
18/09/2015	I	I	I	I	I	Buy	I	I
23/10/2015	I	I	I	I	I	I	I	Hold
17/12/2015	I	I	I	I	I	Hold	Buy	Buy
29/03/2016	Hold	Hold	I	I	I	I	I	Hold

Equities

Financial instruments/Company	Date of the first publication
MICEX	21/12/2009
WIG 30	08/12/2014
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

OMV: 5y high: EUR 39.69 (21/05/2013), 5y low: EUR 20.07 (15/12/2014)

Recommendation history

01.02.2002 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
15.03.2016	Reduce	23.00	25.05	-8.2%
10.02.2016	Reduce	21.50	22.49	-4.4%
09.10.2015	Hold	25.50	24.59	3.7%
08.10.2015	Hold	25.50	24.37	4.6%
25.08.2015	Buy	25.00	21.16	18.2%
18.08.2015	Hold	25.00	24.04	4.0%
29.05.2015	Hold	27.00	25.77	4.8%
12.03.2015	Buy	28.75	24.68	16.5%
21.01.2015	Buy	27.00	22.19	21.7%
14.11.2014	Buy	31.50	24.04	31.0%
06.10.2014	Buy	34.50	25.36	36.0%
27.08.2014	Buy	35.50	29.28	21.3%
16.05.2014	Buy	37.00	31.09	19.0%

Erste Group: 5y high: EUR 37.2 (01/07/2011), 5y low: EUR 10.645 (23/11/2011)

Recommendation history

01.02.2002 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
18.02.2016	Buy	30.00	25.59	17.2%
07.10.2015	Buy	30.00	25.97	15.5%
17.08.2015	Hold	30.00	28.42	5.6%
17.06.2015	Hold	27.00	25.20	7.1%
17.02.2015	Hold	24.00	23.09	3.9%
12.08.2014	Hold	21.50	19.29	11.5%
10.06.2014	Hold	28.00	26.14	7.1%

Andritz: 5y high: EUR 57.49 (13/04/2015), 5y low: EUR 27.41 (08/08/2011)

Recommendation history

01.02.2002 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
06.11.2015	Buy	55.00	45.80	20.1%
08.10.2015	Buy	54.00	41.70	29.5%
31.07.2015	Buy	60.00	49.19	22.0%
05.03.2015	Buy	60.00	51.74	16.0%
26.01.2015	Buy	55.00	47.50	15.8%
09.12.2014	Buy	52.00	45.26	14.9%
06.11.2014	Buy	47.00	38.74	21.3%
08.08.2014	Buy	47.00	40.84	15.1%
27.05.2014	Hold	47.00	43.23	8.7%

voestalpine: 5y high: EUR 41.58 (10/06/2015), 5y low: EUR 18.38 (23/11/2011)

Recommendation history

01.02.2002 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
11.02.2016	Buy	31.00	22.52	37.7%
21.12.2015	Buy	34.50	26.83	28.6%
15.06.2015	Hold	43.00	41.20	4.4%
03.02.2015	Hold	35.50	31.68	12.1%
13.11.2014	Buy	37.00	31.71	16.7%
11.08.2014	Buy	37.00	31.03	19.3%
16.06.2014	Hold	37.00	34.00	8.8%

CA Immo: 5y high: EUR 18.485 (10/02/2015), 5y low: EUR 7.06 (22/11/2011)

Recommendation history

16.01.2004 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
18.03.2016	Buy	19.60	16.51	18.8%
25.01.2016	Buy	19.40	15.41	25.9%
22.04.2015	Susp.			
10.02.2015	Hold	19.45	18.28	6.4%
11.08.2014	Buy	17.50	15.13	15.7%

Equities

Palfinger: 5y high: EUR 33.9 (17/01/2014), 5y low: EUR 11.59 (22/11/2011)

Recommendation history

01.02.2002 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
08.02.2016	Buy	31.50	25.00	26.0%
02.11.2015	Buy	31.50	25.58	23.1%
10.08.2015	Buy	31.50	27.22	15.7%
04.05.2015	Hold	29.50	26.72	10.4%
19.02.2015	Hold	25.00	24.84	0.7%
06.10.2014	Hold	21.50	24.00	-10.4%
11.08.2014	Buy	27.00	22.51	19.9%
08.05.2014	Hold	27.50	27.23	1.0%

Cyfrowy Polsat: 5y high: PLN 27.8 (06/10/2014), 5y low: PLN 12.7 (05/01/2012)

Recommendation history

14.07.2009 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
29.03.2016	Buy	27.70	23.99	15.5%
20.01.2016	Buy	26.50	20.82	27.3%
20.10.2015	Buy	28.50	24.23	17.6%
21.07.2015	Buy	28.50	23.17	23.0%
26.03.2015	Buy	30.00	24.80	21.0%
18.02.2015	Buy	29.00	23.80	21.8%
21.07.2014	Buy	26.50	22.80	16.2%

Magyar Telekom: 5y high: HUF 614 (08/04/2011), 5y low: HUF 274 (22/11/2013)

Recommendation history

01.02.2002 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
23.03.2016	Buy	510	440	15.9%
15.02.2016	Hold	440	387	13.7%
19.02.2015	Hold	410	372	10.2%

E.On Russia: 5y high: RUB 3.322 (30/11/2015), 5y low: RUB 1.93 (03/03/2014)

Recommendation history

02.07.2012 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
10.03.2016	Buy	3.00	2.48	21.0%
27.08.2015	Buy	3.26	2.71	20.3%
03.03.2015	Hold	3.35	2.85	17.5%
19.05.2014	Buy	3.11	2.57	21.2%

Electrica: 5y high: RON 13.01 (19/09/2014), 5y low: RON 10.72 (11/07/2014)

Recommendation history

25.09.2014 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
22.01.2016	Buy	14.40	11.90	21.0%
10.06.2015	Buy	17.40	11.84	47.0%
25.09.2014	Buy	16.90	12.94	30.6%

InterRAO: 5y high: RUB 4.1895 (01/04/2011), 5y low: RUB 0.652 (16/12/2014)

Recommendation history

12.02.2013 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
15.02.2016	Buy	1.92000	1.39950	37.2%
08.06.2015	Buy	1.90000	1.15200	64.9%
11.02.2015	Buy	1.10000	0.80710	36.3%
30.05.2014	Buy	1.40000	0.93320	50.0%

EVN: 5y high: EUR 13.575 (31/05/2011), 5y low: EUR 9.169 (21/05/2012)

Recommendation history

01.02.2002 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
01.12.2015	Buy	12.40	10.05	23.4%
30.03.2015	Buy	12.40	10.42	19.0%
03.12.2014	Buy	12.20	10.45	16.7%
03.07.2014	Hold	11.30	10.28	9.9%

Equities

Verbund: 5y high: EUR 32.465 (15/06/2011), 5y low: EUR 10.035 (29/02/2016)

Recommendation history

01.02.2002 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
01.12.2015	Hold	15.00	13.11	14.5%
31.07.2015	Hold	15.00	13.99	7.2%
16.07.2015	Hold	15.00	13.78	8.9%
27.03.2015	Hold	16.50	15.78	4.6%
22.10.2014	Hold	15.60	15.25	2.3%
15.07.2014	Hold	14.30	14.17	0.9%
23.05.2014	Hold	15.20	13.81	10.1%

CEZ: 5y high: CZK 961 (13/05/2011), 5y low: CZK 364.1 (24/02/2016)

Recommendation history

01.02.2002 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
30.12.2015	Buy	580	437	32.8%
19.06.2015	Buy	670	547	22.5%
25.03.2015	Buy	740	640	15.6%
26.02.2015	Buy	720	620	16.1%
11.04.2014	Buy	670	562	19.2%

Energa: 5y high: PLN 27 (23/04/2015), 5y low: PLN 11 (08/12/2015)

Recommendation history

12.11.2015 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
25.02.2016	Buy	17.00	12.89	31.9%
12.11.2015	Buy	19.00	16.05	18.4%

PGNiG: 5y high: PLN 6.95 (22/06/2015), 5y low: PLN 3.6 (10/08/2011)

Recommendation history

07.09.2009 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
10.02.2016	Hold	5.35	5.12	4.5%
07.12.2015	Hold	5.65	5.03	12.3%
17.11.2015	Reduce	5.70	5.92	-3.7%
09.10.2015	Reduce	6.20	6.94	-10.7%
03.09.2015	Reduce	6.20	6.46	-4.0%
05.06.2015	Reduce	6.00	6.50	-7.7%
17.03.2015	Reduce	4.60	4.85	-5.2%
26.01.2015	Reduce	4.10	4.36	-6.0%
02.09.2014	Hold	5.00	4.95	1.0%
30.05.2014	Hold	4.80	4.79	0.2%

PGE: 5y high: PLN 24.9 (08/06/2011), 5y low: PLN 11.84 (07/01/2016)

Recommendation history

24.03.2010 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
04.02.2016	Reduce	13.00	13.76	-5.5%
08.04.2015	Hold	22.00	20.68	6.4%
12.02.2015	Hold	22.00	19.47	13.0%
05.11.2014	Reduce	21.50	22.10	-2.7%

Vienna Insurance Group: 5y high: EUR 42.81 (16/08/2013), 5y low: EUR 18.66 (24/03/2016)

Recommendation history

06.12.2007 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
22.03.2016	Buy	22.00	18.79	17.1%
26.11.2015	Hold	30.00	26.88	11.6%
27.08.2015	Buy	35.00	28.68	22.1%
27.05.2015	Buy	39.00	34.99	11.5%
23.04.2015	Hold	40.00	38.65	3.5%
02.02.2015	Hold	40.00	37.62	6.3%
21.11.2014	Hold	40.00	38.69	3.4%
13.08.2014	Hold	39.00	35.99	8.4%
28.05.2014	Hold	41.00	38.91	5.4%

Equities

mBank: 5y high: PLN 568 (25/11/2013), 5y low: PLN 207.7 (13/09/2011)

Recommendation history

22.06.2009 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
04.12.2015	Hold	306.00	296.00	3.4%
17.06.2015	Reduce	436.00	448.50	-2.8%
27.04.2015	Hold	494.00	481.10	2.7%
08.01.2015	Hold	550.00	495.20	11.1%
22.10.2014	Hold	509.00	485.35	4.9%
04.08.2014	Hold	503.00	463.00	8.6%
10.06.2014	Reduce	466.00	539.00	-13.5%

BZ WBK: 5y high: PLN 422 (05/03/2014), 5y low: PLN 210 (18/08/2011)

Recommendation history

07.03.2005 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
04.12.2015	Buy	328.00	259.20	26.5%
17.06.2015	Buy	392.00	332.00	18.1%
27.04.2015	Buy	433.00	378.00	14.6%
08.01.2015	Hold	380.00	359.00	5.8%
22.10.2014	Hold	408.00	370.45	10.1%
02.10.2014	Hold	441.00	391.00	12.8%
10.06.2014	Buy	464.00	389.90	19.0%

PKO BP: 5y high: PLN 46.3 (13/04/2011), 5y low: PLN 22.51 (19/01/2016)

Recommendation history

10.01.2005 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
22.02.2016	Hold	26.20	25.11	4.3%
04.12.2015	Hold	26.60	25.52	4.2%
17.06.2015	Hold	33.60	31.90	5.3%
27.04.2015	Hold	39.10	35.93	8.8%
08.01.2015	Buy	41.70	35.20	18.5%
22.10.2014	Buy	42.60	37.00	15.1%
11.09.2014	Buy	47.00	39.90	17.8%
10.06.2014	Buy	47.10	40.29	16.9%

Banca Transilvania: 5y high: RON 2.745 (18/03/2016), 5y low: RON 0.496492 (20/12/2011)

Recommendation history

06.11.2003 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
23.10.2015	Hold	2.52	2.39	5.7%
08.09.2015	Hold	2.38	2.27	4.8%
17.06.2015	Hold	2.16	2.09	3.5%
26.05.2015	Hold	2.16	2.11	2.4%
13.10.2014	Reduce	1.42	1.49	-4.8%
10.06.2014	Sell	1.28	1.47	-13.2%
16.05.2014	Reduce	1.27	1.37	-7.2%

BRD-GSG: 5y high: RON 15.3 (08/04/2011), 5y low: RON 7.125 (07/12/2012)

Recommendation history

06.11.2003 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
23.10.2015	Buy	12.70	10.86	16.9%
17.06.2015	Buy	11.90	10.13	17.5%
14.01.2015	Buy	11.10	9.06	22.5%
21.08.2014	Hold	10.10	8.80	14.8%
10.06.2014	Buy	10.40	9.03	15.2%

Coverage universe recommendation overview

	buy	hold	reduce	sell	suspended	UR
Universe	55	50	8	2	11	4
Universe %	42%	38%	6%	2%	8%	3%
Investment banking services	18	11	5	0	3	0
Investment banking services %	49%	30%	14%	0%	8%	0%

Source: Raiffeisen Centrobank, rounding differences may occur

Technical analysis and asset allocation

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 30	01/10/1996

Technical analysis: Historical recommendations

Date	ATX	BUX	BIST 100	CROBEX 10	MICEX	WIG 30
23/03/2015	BULLISH	BULLISH	NEUTRAL	BEARISH	BEARISH	BULLISH
02/04/2015	BULLISH	BULLISH	NEUTRAL	BULLISH	NEUTRAL	BULLISH
09/04/2015	BULLISH	BULLISH	BULLISH	BULLISH	NEUTRAL	BULLISH
15/04/2015	BULLISH	BULLISH	BULLISH	BULLISH	NEUTRAL	BULLISH
23/04/2015	BEARISH	BULLISH	BULLISH	BULLISH	BEARISH	BULLISH
30/04/2015	BEARISH	NEUTRAL	BULLISH	BULLISH	NEUTRAL	NEUTRAL
07/05/2015	BEARISH	NEUTRAL	BULLISH	NEUTRAL	NEUTRAL	NEUTRAL
13/05/2015	BULLISH	BEARISH	BULLISH	BEARISH	NEUTRAL	NEUTRAL
20/05/2015	BULLISH	BULLISH	BULLISH	BULLISH	BEARISH	NEUTRAL
28/05/2015	BEARISH	BULLISH	NEUTRAL	NEUTRAL	BEARISH	NEUTRAL
03/06/2015	BEARISH	NEUTRAL	NEUTRAL	BULLISH	BEARISH	BEARISH
11/06/2015	NEUTRAL	NEUTRAL	BULLISH	BULLISH	NEUTRAL	BULLISH
25/06/2015	BULLISH	BULLISH	NEUTRAL	BULLISH	BULLISH	NEUTRAL
02/07/2015	BULLISH	BULLISH	NEUTRAL	NEUTRAL	BEARISH	BULLISH
09/07/2015	NEUTRAL	BULLISH	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL
16/07/2015	BULLISH	BULLISH	NEUTRAL	BULLISH	BULLISH	BULLISH
22/07/2015	BULLISH	BULLISH	NEUTRAL	BULLISH	NEUTRAL	BEARISH
30/07/2015	NEUTRAL	BULLISH	BULLISH	BULLISH	NEUTRAL	BEARISH
06/08/2015	NEUTRAL	BULLISH	BULLISH	BULLISH	BULLISH	NEUTRAL
11/08/2015	NEUTRAL	NEUTRAL	BULLISH	BULLISH	BULLISH	NEUTRAL

Technical analysis: Historical recommendations

Date	ATX	BUX	BIST 100	CROBEX 10	MICEX	WIG 30
20/08/2015	BEARISH	BEARISH	BEARISH	NEUTRAL	BEARISH	NEUTRAL
26/08/2015	NEUTRAL	BEARISH	NEUTRAL	BEARISH	NEUTRAL	NEUTRAL
03/09/2015	BEARISH	BULLISH	BEARISH	BULLISH	NEUTRAL	BULLISH
10/09/2015	NEUTRAL	BEARISH	BEARISH	BEARISH	NEUTRAL	BULLISH
16/09/2015	BULLISH	NEUTRAL	BULLISH	BEARISH	BULLISH	NEUTRAL
24/09/2015	BEARISH	BEARISH	BEARISH	BEARISH	BEARISH	BEARISH
01/10/2015	BEARISH	BULLISH	BEARISH	BEARISH	BULLISH	BEARISH
08/10/2015	BULLISH	NEUTRAL	BEARISH	BEARISH	BULLISH	BULLISH
14/10/2015	NEUTRAL	NEUTRAL	BULLISH	BEARISH	BULLISH	NEUTRAL
22/10/2015	BULLISH	BULLISH	BULLISH	BULLISH	BULLISH	BULLISH
20/10/2015	BULLISH	BULLISH	BULLISH	NEUTRAL	BULLISH	BULLISH
05/11/2015	BULLISH	BULLISH	BULLISH	BEARISH	BULLISH	BEARISH
12/11/2015	BULLISH	BULLISH	BULLISH	BEARISH	BULLISH	NEUTRAL
18/11/2015	BULLISH	BULLISH	BULLISH	NEUTRAL	BULLISH	NEUTRAL
26/11/2015	BULLISH	BULLISH	BULLISH	NEUTRAL	BULLISH	NEUTRAL
03/12/2015	BULLISH	NEUTRAL	BULLISH	NEUTRAL	NEUTRAL	NEUTRAL
09/12/2015	BEARISH	BULLISH	BEARISH	NEUTRAL	NEUTRAL	BEARISH
14/12/2015	BULLISH	BULLISH	NEUTRAL	NEUTRAL	BULLISH	BULLISH
30/03/2016	BULLISH	BULLISH	BULLISH	BULLISH	BULLISH	BULLISH

Bullish: Buy, Bearish = Sell

CEE portfolio weightings

	Mar 15	Apr 15	May 15	Jun 15	Jul 15	Aug 15	Sep 15	Oct 15	Nov 15	Dec 15	Jan 16	Feb 16	Mar 15
Stocks	↔	↑	↑	↑	↔	↑	↔	↑	↑	↔	↑	↔	↔
Czech Rep	↓	↑	↓	↓	↑	↑	↑	↑	↑	↑	↑	↑	↑
Hungary	↓	↓	↔	↔	↑	↑	↑	↑	↑	↑	↑	↑	↑
Poland	↓	↔	↑	↓	↓	↓	↓	↔	↓	↓	↓	↓	↓
Russia	↔	↔	↑	↑	↑	↑	↑	↑	↑	↑	↑	↔	↔
Turkey	↑	↔	↔	↔	↓	↓	↓	↓	↓	↓	↓	↔	↔
Croatia	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔
Romania	↑	↑	↑	↑	↔	↔	↔	↔	↔	↑	↑	↔	↔
Bonds	↔	↓	↓	↓	↔	↓	↔	↓	↓	↔	↓	↔	↔
EB USD	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔
EB EUR	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↑	↑
LCY	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↓	↓
Czech Rep	↔	↓	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔
Hungary	↔	↔	↔	↔	↓	↓	↔	↑	↑	↑	↑	↑	↑
Poland	↔	↔	↔	↔	↔	↔	↔	↑	↑	↔	↔	↓	↓
Romania	↔	↑	↑	↑	↔	↔	↔	↔	↔	↑	↑	↑	↑
Russia	↔	↔	↓	↓	↑	↑	↔	↔	↔	↑	↑	↔	↔
Turkey	↔	↔	↔	↔	↔	↔	↔	↓	↓	↓	↓	↔	↔
Croatia	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔

Date of the first publication 01/01/2006

Disclaimer Financial Analysis

Responsible for this publication: Raiffeisen Bank International AG („RBI")

RBI is a credit institution according to §1 Banking Act (Bankwesengesetz) with the registered office Am Stadtpark 9, 1030 Vienna, Austria.

Raiffeisen RESEARCH is an organisational unit of RBI.

Supervisory authority: As a credit institution (acc. to § 1 Austrian Banking Act; Bankwesengesetz) Raiffeisen Bank International AG is subject to the supervision by the Austrian Financial Market Authority (FMA, Finanzmarktaufsicht) and the National Bank of Austria (OeNB, Oesterreichische Nationalbank). Additionally, RBI is subject to the supervision by the European Central Bank (ECB), which undertakes such supervision within the Single Supervisory Mechanism (SSM), which consists of the ECB and the national responsible authorities (Council Regulation (EU) No 1024/2013 - SSM Regulation). Unless set out herein explicitly otherwise, references to legal norms refer to norms enacted by the Republic of Austria.

This document is for information purposes and may not be reproduced or distributed to other persons without RBI's permission. This document constitutes neither a solicitation of an offer nor a prospectus in the sense of the Austrian Capital Market Act (Kapitalmarktgesetz) or the Austrian Stock Exchange Act (Börsegesetz) or any other comparable foreign law. An investment decision in respect of a financial instrument, a financial product or an investment (all hereinafter "product") must be made on the basis of an approved, published prospectus or the complete documentation for such a product in question, and not on the basis of this document.

This document does not constitute a personal recommendation to buy or sell financial instruments in the sense of the Austrian Securities Supervision Act (Wertpapieraufsichtsgesetz). Neither this document nor any of its components shall form the basis for any kind of contract or commitment whatsoever. This document is not a substitute for the necessary advice on the purchase or sale of a financial instrument, a financial product or advice on an investment. In respect of the sale or purchase of one of the above mentioned products, your banking advisor can provide individualised advice suitable for investments and financial products.

This analysis is fundamentally based on generally available information and not on confidential information which the party preparing the analysis has obtained exclusively on the basis of his/her client relationship to a person.

Unless otherwise expressly stated in this publication, RBI deems all of the information to be reliable, but does not make any assurances regarding its accuracy and completeness.

In emerging markets, there may be higher settlement and custody risk as compared to markets with established infrastructure. The liquidity of stocks/financial instruments may be influenced, amongst others, by the number of market makers. Both of these circumstances can result in elevated risk in relation to the safety of investments made in consideration of the information contained in this document.

The information in this publication is current as per the latter's creation date. It may be outdated by future developments, without the publication being changed.

Unless otherwise expressly stated (www.raiffeisenresearch.com/special_compensation), the analysts employed by RBI are not compensated for specific investment banking transactions. Compensation of the author or authors of this report is based (amongst other things) on the overall profitability of RBI, which includes, inter alia, earnings from investment banking and other transactions of RBI. In general, RBI forbids its analysts and persons reporting to the analysts from acquiring securities or other financial instruments of any enterprise which is covered by the analysts, unless such acquisition is authorised in advance by RBI's Compliance Department.

RBI has put in place the following organisational and administrative agreements, including information barriers, to impede or prevent conflicts of interest in relation to recommendations: RBI has designated fundamentally binding confidentiality zones. These are typically units within credit institutions, which are isolated from other units by organisational measures governing the exchange of information, because compliance-relevant information is continuously or temporarily handled in these zones. Compliance-relevant information may fundamentally not leave a confidentiality zone and is to be treated as strictly confidential in internal business operations, including interaction with other units. This does not apply to the transfer of information necessary for usual business operations. Such transfer of information is limited, however, to what is absolutely necessary (need-to-know principle). The exchange of compliance-relevant information between two confidentiality zones may only occur with the involvement of the Compliance Officer.

SPECIAL REGULATIONS FOR THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (UK):

This document does not constitute either a public offer in the meaning of the Austrian Capital Market Act (Kapitalmarktgesetz; hereinafter „KMG") nor a prospectus in the meaning of the KMG or of the Austrian Stock Exchange Act (Börsegesetz). Furthermore, this document does not intend to recommend the purchase or the sale of securities or investments in the meaning of the Austrian Supervision of Securities Act (Wertpapieraufsichtsgesetz). This document shall not replace the necessary advice concerning the purchase or the sale of securities or investments. For any advice concerning the purchase or the sale of securities of investments kindly contact your RAIFFEISENBANK. This publication has been either approved or issued by RBI in order to promote its investment business. Raiffeisen Bank International AG ("RBI"), London Branch is authorised by the Austrian Financial Market Authority and subject to limited regulation by the Financial Conduct Authority ("FCA"). Details about the extent of its regulation by the FCA are available on request. This publication is not intended for investors who are Retail Customers within the meaning of the FCA rules and shall therefore not be distributed to them. Neither the information nor the opinions expressed herein constitute or are to be construed as an offer or solicitation of an offer to buy (or sell) investments. RBI may have affected an Own Account Transaction within the meaning of FCA rules in any investment mentioned herein or related investments and/or may have a position or holding in such investments as a result. RBI may have been, or might be, acting as a manager or co-manager of a public offering of any securities mentioned in this report or in any related security.

SPECIFIC RESTRICTIONS FOR THE UNITED STATES OF AMERICA AND CANADA: This document may not be transmitted to, or distributed within, the United States of America or Canada or their respective territories or possessions, nor may it be distributed to any U.S. person or any person resident in Canada, unless it is provided directly through RB International Markets (USA) LLC ("RBIM"), a U.S. registered broker-dealer, and subject to the terms set forth below.

SPECIFIC INFORMATION FOR THE UNITED STATES OF AMERICA AND CANADA: This research document is intended only for institutional investors and is not subject to all of the independence and disclosure standards that may be applicable to research documents prepared for retail investors. This report was provided to you by RB International Markets (USA) LLC (RBIM), a U.S. registered broker-dealer, but was prepared by our non-U.S. affiliate Raiffeisen Bank International AG (RBI). Any order for the purchase or sale of securities covered by this report must be placed with RBIM. You can reach RBIM at 1133, Avenue of the Americas, 16th floor, New York, NY 10036, phone +1 212-600-2588. This document was prepared outside the United States by one or more analysts who may not have been subject to rules regarding the preparation of reports and the independence of research analysts comparable to those in effect in the United States. The analyst or analysts who prepared this research (i) are not registered or qualified as research analysts with the Financial Industry Regulatory Authority ("FINRA") in the United States, and (ii) are not allowed to be associated persons of RBIM and are therefore not subject to FINRA regulations, including regulations related to the conduct or independence of research analysts.

The opinions, estimates and projections contained in this report are those of RBI only as of the date of this report and are subject to change without notice. The information contained in this report has been compiled from sources believed to be reliable by RBI, but no representation or warranty, express or implied, is made by RBI or its affiliated companies or any other person as to the report's accuracy, completeness or correctness. Securities which are not registered in the United States may not be offered or sold, directly or indirectly, within the United States or to U.S. persons (within the meaning of Regulation S under the Securities Act of 1933 ["the Securities Act"]), except pursuant to an exemption under the Securities Act. This report does not constitute an offer with respect to the purchase or sale of any security within the meaning of Section 5 of the Securities Act and neither shall this report nor anything contained herein form the basis of, or be relied upon in connection with, any contract or commitment whatsoever. This report provides general information only. In Canada it may only be distributed to persons who are resident in Canada and who, by virtue of their exemption from the prospectus requirements of the applicable provincial or territorial securities laws, are entitled to conduct trades in the securities described herein.

EU REGULATION NO 833/2014 CONCERNING RESTRICTIVE MEASURES IN VIEW OF RUSSIA'S ACTIONS DESTABILISING THE SITUATION IN UKRAINE

Please note that research is done and recommendations are given only in respect of financial instruments which are not affected by the sanctions under EU regulation no 833/2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine, as amended from time to time, i.e. financial instruments which have been issued before 1 August 2014.

We wish to call to your attention that the acquisition of financial instruments with a term exceeding 30 days issued after 31 July 2014 is prohibited under EU regulation no 833/2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine, as amended from time to time. No opinion is given with respect to such prohibited financial instruments.

INFORMATION REGARDING THE PRINCIPALITY OF LIECHTENSTEIN: COMMISSION DIRECTIVE 2003/125/EC of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the fair presentation of investment recommendations and the disclosure of conflicts of interest has been incorporated into national law in the Principality of Liechtenstein by the Finanzanalyse-Marktmissbrauchs-Verordnung.

If any term of this Disclaimer is found to be illegal, invalid or unenforceable under any applicable law, such term shall, insofar as it is severable from the remaining terms, be deemed omitted from this Disclaimer. It shall in no way affect the legality, validity or enforceability of the remaining terms.

Imprint

Information requirements pursuant to the Austrian E-Commerce Act

Raiffeisen Bank International AG

Registered Office: Am Stadtpark 9, 1030 Vienna

Postal address: 1010 Vienna, POB 50

Phone: +43-1-71707-0 **Fax:** + 43-1-71707-1848

Company Register Number: FN 122119m at the Commercial Court of Vienna

VAT Identification Number: UID ATU 57531200

Austrian Data Processing Register: Data processing register number (DVR): 4002771

S.W.I.F.T.-Code: RZBA AT WW

Supervisory Authorities: As a credit institution (acc. to § 1 Austrian Banking Act; Bankwesengesetz) Raiffeisen Bank International AG is subject to the supervision by the Austrian Financial Market Authority (FMA, Finanzmarktaufsicht) and the National Bank of Austria (OeNB, Oesterreichische Nationalbank). Additionally, RBI is subject to the supervision by the European Central Bank (ECB), which undertakes such supervision within the Single Supervisory Mechanism (SSM), which consists of the ECB and the national responsible authorities (Council Regulation (EU) No 1024/2013 - SSM Regulation). Unless set out herein explicitly otherwise, references to legal norms refer to norms enacted by the Republic of Austria..

Membership: Austrian Federal Economic Chamber, Federal Bank and Insurance Sector, Raiffeisen Association

Statement pursuant to the Austrian Media Act

Publisher and editorial office of this publication: Raiffeisen Bank International AG, Am Stadtpark 9, A-1030 Vienna

Media Owner of this publication: Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen, Am Stadtpark 9, A-1030 Vienna

Executive Committee of Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen:

Mag. Peter Brezinschek (Chairman), Mag. Helge Rechberger (Vice-Chairman)

Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen is constituted as state-registered society. Purpose and activity are (inter alia), the distribution of analysis, data, forecasts and reports and similar publications related to the Austrian and international economy as well as financial markets.

Basic tendency of the content of this publication

- Presentation of activities of Raiffeisen Bank International AG and its subsidiaries in the area of conducting analysis related to the Austrian and international economy as well as the financial markets.
- Publishing of analysis according to various methods of analyses covering economics, interest rates and currencies, government and corporate bonds, equities as well as commodities with a regional focus on the euro area

Producer of this publication: Holzer Druck, 1100 Vienna, Buchengasse 79

Cut-off for data: 30 March 2016 / **This report was completed on 2 April 2016**/ **Coverfoto:** Peter Brezinschek / **Design:** Kathrin Kořinek, Birgit Bachhofner

Editor: Peter Brezinschek, RBI Vienna

Company:	Disclosure:	Company:	Disclosure:
CA IMMO	4,5,21	Magyar Telekom	-
Cyfrowy Polsat	-	Palfinger	4,6,22
E.On Russia	-		

Detailed disclosure and disclaimer on the aforementioned companies as well as on the „coverage universe" of Raiffeisen Centrobank pursuant to § 48 Stock Exchange Act: http://www.rcb.at.
https://www.rcb.at/index.php?id=869&L=1

Global Raiffeisen RESEARCH Team: Peter Brezinschek (Head)

Austria: Raiffeisen Bank International AG (RBI AG)
Aaron Alber
Jörg Angelé
Michael Ballauf
Jörg Bayer
Björn Chyba
Gunter Deuber
Wolfgang Ernst
Connie Gaisbauer
Judith Galter
Eva-Maria Grosse
Christian Hinterwallner
Valentin Hofstätter
Stephan Imre
Thomas Keil
Christoph Klaper
Lydia Kranner
Patrick Krizan
Martin Kutny
Veronika Lammer
Jörn Lange
Hannes Loacker
Andreas Mannsparth
Johannes Mattner
Stefan Memmer
Nina Neubauer-Kukić
Christine Nowak
Helge Rechberger
Matthias Reith
Elena Romanova
Leopold Salcher
Andreas Schiller
Robert Schittler
Andreas Schwabe
Gintaras Shlizhyus
Gottfried Steindl
Martin Stelzeneder
Stefan Theußl
Christoph Vahs
Jürgen Walter

Albania: Raiffeisen Bank Sh.A.
Joan Canaj
Valbona Gjeka

Belarus: Priorbank Open Joint-Stock Company
Oleg Leontev
Vasily Pirogovsky
Olga Laschevskaya
Mariya Keda

Bosnia & Herzegovina: Raiffeisen Bank dd Bosna i Hercegovina
Ivona Zametica
Srebrenko Fatusic

Bulgaria: Raiffeisenbank (Bulgaria) Sole-owned Joint Stock Company
Emil S. Kalchev

Croatia: Raiffeisenbank Austria d.d.
Zrinka Zivkovic Matijevic
Nada Harambasic-Nereau
Marijana Cigic
Elizabeta Sabolek-Resanovic
Tomislava Ujevic
Mate Rosan

Czech Republic: Raiffeisenbank a.s.
Helena Horska
Michal Brožka
Daniela Milučka
Lenka Kalivodova

Hungary: Raiffeisen Bank Zrt.
Zoltán Török
Gergely Pálffy
Levente Blahó

Kosovo: Raiffeisen Bank Kosovo J.S.C.
Arta Kastrati
Antigona Limani

Poland: Raiffeisen Bank Polska S.A.
Marta Petka-Zagajewska
Dorota Strauch
Tomasz Regulski

Romania: RAIFFEISEN BANK S.A.
Ionut Dumitru
Nicolae Covrig
Alexandru Combei
Iuliana Mocanu
Catalin Diaconu
Silvia Rosca

Russia: AO Raiffeisenbank Austria
Anastasia Baykova
Denis Poryvay
Anton Pletenev
Konstantin Yuminov
Sergey Libin
Andrey Polischuk
Fedor Kornachev
Natalia Kolupaeva

Serbia: Raiffeisen banka a.d. Beograd
Ljiljana Grubic

Slovakia: Tatra banka, a.s.
Robert Prega
Juraj Valachy
Boris Fojtik

Slovenia: Raiffeisen Bank d.d.
Primoz Kovacic

Ukraine: Raiffeisen Bank Aval Public Joint Stock Company
Sergii Drobot
Ludmila Zagoruyko
Olga Nikolaieva

Company Research: Raiffeisen Centrobank AG
Stefan Maxian (Head)
Christian Bader
Oleg Galbur
Jakub Krawczyk
Bernd Maurer
Juliusz Mozdzierz
Dominik Niszcz
Markus Remis
Teresa Schinwald
Jovan Sikimic
Arno Supper

Raiffeisen Bank International AG

Markets & Investment Banking

Raiffeisen Bank International AG
Group Capital Markets:
Nicolaus Hagleitner P: +431 71707-1467
Investmentbanking Products:
Marcus Offenhuber P: +431 71707-1147
Investmentbanking Products:
Matthias Renner P: +431 71707-2123

RB International Markets (USA) LCC
Stefan Gabriele P:+1 212 835 2328

AL: Raiffeisen Bank Sh.a.
Mirela Borici P: +355 4 2381000-1074

BH: Raiffeisen Bank d.d. Bosna i Hercegovina
Reuf Sulejmanovic P: +387 33 287-449

BG: Raiffeisenbank (Bulgaria) EAD
Boyan Petkov P: +359 2 91985-635

BY: Priorbank JSC
Treasury: Svetlana N Gulkovich P: +375 17 2899080
Investmentbanking: Oleg Leontev P. +375 17 2899251

CZ: Raiffeisenbank a.s.
Milan Fischer P: + 420 234 40-1145

HR: Raiffeisenbank Austria d.d.
Ivan Zizic P: +385 1 4695-076

HU: Raiffeisen Bank Zrt.
Gabor Liener P: +36 1 484-4304

KO: Raiffeisen Bank Kosovo J.S.C.
Berat Isa P: +381 38 222222 229

PL: Raiffeisen Bank Polska S.A.
Miroslaw Winiarsczyk P: +48 22 585 3710

RO: Raiffeisen Bank S.A.
Aurelian Mihailescu P: +40 21 3061221

RU: AO Raiffeisenbank
Capital Markets: Sergey Shchepilov P: +7 495 721 9977
Investmentbanking: Oleg Gordienko P: +7 495 721 9900

SI: Raiffeisen Banka d.d.
Marko Stolica P: +386 22293183

SK: Tatra banka, a.s.
Peter Augustin P: +421 2 5919-1313

SR: Raiffeisen banka a.d.
Branko Novakovic P: +381 11 2207131

UA: Raiffeisen Bank Aval
Vladimir Kravchenko P: +380 44 49542 20

Raiffeisen CENTROBANK AG

Institutional Equity Sales, Vienna
Klaus della Torre Tel: +43 1 515 20 472

Merger & Aquisitions
Klaus Imhof Tel: +43 1 51520-770

Kathrein Privatbank Aktiengesellschaft

CEO
Susanne Höllinger Tel.: +43 1 534 51 333

Director Private Banking (Austria)
Alexander Firon Tel.: +43 1 534 51 213

Director Private Banking (RUS/CIS)
William Sinclair Tel.: +43 1 534 51 231

Director Private Banking (CE/SEE)
Krisztian Slanicz Tel.: +43 1 534 51 603

Institutional Clients
Herwig Wolf Tel.: +43 1 534 51 261

Commercial banks

Raiffeisen Bank International AG, Vienna
Corporate Customers: Joseph Eberle P: +43 1 71707 1487
Financial Institutions: Axel Summer P: +43 1 71707 1476

RBI London Branch
Matthias Renner P: +44 20 7933 8001
Graham Page P: +44 20 7933 8108

RBI Beijing Branch
Terence Lee P: +86 10 8531-9007

RBI Singapore Branch
Klaus Krombass P: +65 6305 6024

International Desk

AL: Raiffeisen Bank Sh.a.
Jorida Zaimi P: +355 4 2381 445 2865

AT: Raiffeisen Bank International AG
Rudolf Lercher P: +43 1 71707 3537

BH: Raiffeisen Bank d.d. Bosna i Hercegovina
Vildana Sijamhodzic P: +387 33 287 283

BG: Raiffeisenbank (Bulgaria) EAD
Irena Krentcheva P: +359 2 9198 5118

BY: Priorbank JSC
Oksana Alekseychenko P: +375 17 289 9908

CZ: Raiffeisenbank a.s.
Roman Lagler P: +420 234 40 1728

HR: Raiffeisenbank Austria d.d.
Wolfgang Woehry P: +385 1 4566 462

HU: Raiffeisen Bank Zrt.
Lászlo Volosinovsky P: +36 1 484 4639

KO: Raiffeisen Bank Kosovo J.S.C.
Anita Sopi P: +381 38 22 22 22 184

PL: Raiffeisen Bank Polska S.A.
Krzysztof Lubkiewicz P: +48 22 585 2534

RO: Raiffeisen Bank S.A.
Reinhard Zeitlberger P: +40 21 306 1564

RU: AO Raiffeisenbank
Maria Maevskaya P: +7 495 775 5230

SI: Raiffeisen Banka d.d.
Simona Vizintin P: +386 2 22 93 159

SK: Tatra banka, a.s.
Mirco Ribis P: +421 2 5919 1846

SR: Raiffeisen banka a.d.
Sofija Davidovic P: +381 11 220 7807

UA: Raiffeisen Bank Aval
Andreas Kettlgruber P: +38 044 495 41 10