Central & Eastern European Strategy

2nd quarter 2017

Growth and reflation gaining momentum

- Better economic outlook, but also higher inflation
- Monetary policies to remain loose on the back of ECB
- CZKexit likely in Q2; Russia bonds upgraded to Hold
- Asset allocation: equities preferred over bonds

Raiffeisen RESEARCH

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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
BYN	Belarusian roubel
CZK	Czech koruna
HUF	Hungarian forint
HRK	Croatian kuna
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
OFZ	Russian 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
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

Higher estimates for growth and inflation

- Improvement in sentiment leads to higher projected growth
- Significantly positive rates of inflation return, without any notable impact on monetary policy
- Relatively calm in terms of currency developments

Since the summer of 2016, the purchasing managers' indices in the CE countries and Austria have surged higher. Only in Russia has the positive sentiment cooled off somewhat recently. Though, the Russian economy registered in Q4 its first modest growth in the last three years. In Austria, the dynamic uptrend with annualised GDP growth of 2% from H2 2016 continued in early 2017, prompting us to boost our GDP forecast for this year from 1.3% to 1.7%. The upward revisions to our 2017 GDP forecasts for Poland, Croatia, Bulgaria, and Romania range from 0.3% to 0.6%. For the most part, the GDP figures are being driven higher by strong domestic demand, including the gains in private consumption fuelled by rising employment and hefty wage increases in particular. Investments are also generally acting as a positive factor for economic growth. Consequently, the risks of Brexit have faded in CEE, thanks to the good domestic conditions.

At the same time it must be noted that the trend in prices has turned around sharply in 2017. Over the last three years, many countries experienced negative trends in prices. At the beginning of this year, rates of inflation started to rise more quickly than forecast, due to wage increases in excess of productivity gains, combined with sharp increases in energy prices. As a result of this, we have raised our forecasts for 2017 inflation by 0.5 to 0.8 percentage points in several countries, such as Poland, Hungary, the Czech Republic, and Croatia in particular. However, this also means that economic growth has reached its peak, since real wages will show slower rates of increase in the future. The central banks in the countries will be paying close attention to the tight labour markets resulting from the further decline in the rate of unemployment. Nonetheless, we believe that the ultra-expansive monetary policy being pursued by European Central Bank (ECB) will provide the central banks in the CE and SEE regions with adequate leeway to continue their historically low interest rate policies. Consequently, we do not expect any increases in interest rates in the countries in question during 2017. Turkey is a special case in this regard, due to the political crisis and the related turmoil for the currency.

Impact on currencies

Looking ahead, we still do not expect to see much movement by most of the currencies relative to the euro. Nevertheless, due to the faster increase in inflation we now expect that the CZK peg to the EUR will be abandoned in the second quarter, rather than in the second half of the year. We project CZK appreciation to below CZK 26 to the euro. We believe that RUB will remain around 60 versus USD. Instability in Ukraine, however, could trigger some temporary depreciation.

Impact on the bond and equity markets

On the bond markets, we expect a mild upward trend in yields during the year, in line with the international development. Nothing has changed for CEE and Austria with regard to our positive assessment of equity market prospects for H1 2017. The underlying factors of stronger growth, an improved earnings trend, and expansive monetary policy also remain unchanged. On average, we still see potential for price gains of around 5% until mid-year. Starting from the summer, temporary setbacks in the indices should be expected.

Financial analyst: Peter Brezinschek, RBI Vienna

CEE: Market strategy[1]

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

[1] **LCY bonds:** *based on absolute performance in LCY*
Eurobonds: *based on expected spread change*
FX *vs. EUR*
Recommendation horizon: **end 2nd quarter 2017**
For recommendation history please see page 56
B: Buy; H: Hold; S: Sell
2) HU: 3y, not 2y tenor
Source: RBI/Raiffeisen RESEARCH

Recommendations[1] – stock markets

Indices	
Buy	ATX, MICEX, BUX, PX, WIG 30
Hold	-
Sell	BIST Nat. 100

Recommendations[1] – debt markets

Corporate bonds		curr.[2]
Buy	Evraz 6.75% due 2022	295bp

[1] *Recommendation horizon:* **end 2nd quarter 2017**
[2] *z-spreads (bp)*
Source: RBI/Raiffeisen RESEARCH

Real GDP (% yoy)

Countries	2015	2016	2017e	*Consensus*	2018f	*Consensus*
Poland	3.9	2.8	3.3	*3.2*	3.0	*3.2*
Hungary	3.1	2.0	3.2	*2.9*	3.4	*2.8*
Czech Rep.	4.6	2.3	2.7	*2.6*	2.5	*2.6*
Slovakia	3.8	3.3	3.3	*3.2*	4.0	*3.5*
Slovenia	2.3	2.5	2.7	*2.6*	2.5	*2.6*
CE	**3.9**	**2.6**	**3.1**	*3.0*	**3.0**	*3.0*
Croatia	1.6	2.9	3.3	*2.8*	2.8	*2.7*
Bulgaria	3.6	3.4	3.3	*3.0*	3.3	*2.9*
Romania	3.9	4.8	4.2	*3.7*	3.5	*3.3*
Serbia	0.7	2.8	3.0	*3.0*	3.0	*3.2*
Bosnia a. H.	3.0	2.5	3.0	*3.0*	3.5	*3.5*
Albania	2.6	3.5	4.0	*3.6*	4.0	*3.8*
Kosovo	4.1	3.5	3.5	*3.8*	3.5	*3.9*
SEE	**3.1**	**3.9**	**3.7**	3.4	**3.3**	3.2
Russia	-2.8	-0.2	1.0	*1.1*	1.5	*1.5*
Ukraine	-9.9	2.2	2.0	*2.5*	3.0	*3.0*
Belarus	-3.8	-2.6	-0.5	*0.4*	1.5	*1.4*
EE	**-3.3**	**-0.1**	**1.0**	*1.2*	**1.6**	*1.6*
Turkey	6.1	2.1	2.0	*2.5*	3.0	*3.2*
Austria	**1.0**	**1.5**	**1.7**	*1.5*	**1.5**	*1.5*
Germany	1.5	1.8	1.7	1.6	1.5	1.6
Euro area	**2.0**	**1.7**	**1.9**	*1.6*	**1.7**	*1.5*
USA	**2.6**	**1.6**	**2.4**	2.3	**2.2**	2.3

Source: national sources, Bloomberg consensus, RBI/Raiffeisen RESEARCH

Consumer prices (avg, % yoy)

Countries	2015	2016	2017e	2018f
Poland	-0.9	-0.6	1.9	2.2
Hungary	0.0	0.3	3.3	3.0
Czech Rep.	0.3	0.7	2.4	1.5
Slovakia	-0.3	-0.5	1.1	2.0
Slovenia	-0.8	-0.2	1.5	1.9
CE	**-0.5**	**-0.2**	**2.1**	**2.1**
Croatia	-0.5	-1.1	1.9	1.6
Bulgaria	-0.1	-0.8	1.3	2.0
Romania	-0.6	-1.5	0.9	2.9
Serbia	1.4	1.2	2.5	2.9
Bosnia a. H.	-1.0	-1.1	2.0	2.0
Albania	1.8	1.3	2.5	2.7
Kosovo	-0.5	0.3	1.5	2.0
SEE	**-0.2**	**-0.9**	**1.4**	**2.5**
Russia	15.6	7.1	4.7	4.5
Ukraine	48.7	13.9	10.7	7.5
Belarus	13.5	12.0	12.0	11.0
EE	**17.5**	**7.7**	**5.3**	**4.9**
Turkey	7.7	7.8	10.0	8.0
Austria	**0.8**	**1.0**	**2.0**	**2.1**
Germany	0.1	0.4	1.9	2.2
Euro area	**0.0**	**0.2**	**1.8**	**1.5**
USA	**0.1**	**1.2**	**2.5**	**2.5**

Source: national sources, RBI/Raiffeisen RESEARCH

Current account balance (% of GDP)

Countries	2015	2016	2017e	2018f
Poland	-0.6	-0.5	-0.8	-1.0
Hungary	4.3	3.5	3.2	3.0
Czech Rep.	0.2	1.1	1.1	1.2
Slovakia	0.2	-0.6	0.5	1.4
Slovenia	5.2	6.8	6.6	6.2
CE	**0.5**	**0.4**	**0.3**	**0.2**
Croatia	5.0	3.1	2.5	2.2
Bulgaria	0.4	3.8	3.4	1.0
Romania	-1.2	-2.4	-3.6	-3.8
Serbia	-4.6	-3.9	-3.7	-3.5
Bosnia a. H.	-5.6	-5.4	-7.0	-7.7
Albania	-13.6	-13.6	-13.6	-12.1
Kosovo	-8.6	-9.4	-7.9	-7.5
SEE	**-1.2**	**-1.6**	**-2.4**	**-2.8**
Russia	5.1	1.7	4.9	5.5
Ukraine	-0.1	-3.7	-4.6	-3.8
Belarus	-3.8	-5.1	-3.7	-3.6
EE	**4.4**	**1.1**	**4.1**	**4.7**
Turkey	-3.7	-3.8	-5.8	-5.0
Austria	**1.8**	**2.0**	**2.1**	**2.2**
Germany	8.3	8.3	8.5	8.0
Euro area	**3.0**	**3.4**	**3.3**	**3.1**
USA	**-2.6**	**-3.2**	**-3.5**	**-3.5**

Source: national sources, RBI/Raiffeisen RESEARCH

General budget balance (% of GDP)

Countries	2015	2016	2017e	2018f
Poland	-2.6	-2.6	-3.0	-3.2
Hungary	-2.0	-2.0	-2.5	-3.0
Czech Rep.	-0.6	0.0	-0.2	0.0
Slovakia	-2.7	-2.5	-2.0	-2.0
Slovenia	-2.7	-2.5	-2.1	-1.7
CE	**-2.1**	**-2.0**	**-2.2**	**-2.3**
Croatia	-3.3	-1.5	-1.9	-2.0
Bulgaria	-2.8	1.6	-1.5	-2.0
Romania	-0.8	-2.6	-3.6	-3.8
Serbia	-3.7	-1.3	-1.8	-1.8
Bosnia a. H.	0.7	-1.5	-1.0	-1.0
Albania	-4.0	-2.5	-2.0	-1.0
Kosovo	-1.4	-1.6	-1.8	-2.0
SEE	**-1.8**	**-1.6**	**-2.7**	**-2.8**
Russia	-3.6	-3.7	-2.6	-2.4
Ukraine	-2.3	-3.0	-4.0	-3.0
Belarus	1.8	1.5	0.0	0.0
EE	**-3.3**	**-3.5**	**-2.6**	**-2.3**
Turkey	-1.0	-1.4	-1.5	-1.8
Austria	**-1.0**	**-1.3**	**-1.2**	**-1.1**
Germany	0.7	0.2	0.1	0.0
Euro area	**-2.1**	**-1.7**	**-1.4**	**-1.4**
USA	**-2.4**	**-3.2**	**-3.5**	**-2.6**

Source: national sources, RBI/Raiffeisen RESEARCH

Public debt (% of GDP)

Countries	2015	2016	2017e	2018f
Poland	51.1	52.8	53.2	53.7
Hungary	75.2	73.9	73.2	72.4
Czech Rep.	40.3	37.9	36.8	35.8
Slovakia	52.5	52.6	52.5	52.2
Slovenia	83.1	81.3	79.9	77.9
CE	**53.8**	**53.9**	**53.7**	**53.5**
Croatia	86.7	83.9	82.6	80.6
Bulgaria	25.6	29.1	29.0	31.0
Romania	38.0	37.6	38.7	40.1
Serbia	74.7	71.6	70.5	66.4
Bosnia a. H.	42.8	42.5	42.8	42.5
Albania	72.2	70.5	69.0	65.0
Kosovo	13.0	14.5	15.5	17.0
SEE	**47.8**	**47.4**	**47.6**	**47.7**
Russia	12.7	13.5	14.0	14.5
Ukraine	72.6	76.5	78.4	73.0
Belarus	36.5	39.0	38.7	36.5
EE	**17.2**	**18.2**	**18.8**	**18.8**
Turkey	34.0	32.0	33.0	32.0
Austria	**85.5**	**83.8**	**81.4**	**79.8**
Germany	71.2	68.6	66.3	64.0
Euro area	**90.4**	**89.3**	**88.3**	**87.2**
USA	**101.9**	**105.5**	**105.6**	**104.9**

Source: national sources, RBI/Raiffeisen RESEARCH

Gross foreign debt (% of GDP)

Countries	2015	2016	2017e	2018f
Poland	70.3	74.4	74.8	74.2
Hungary	106.2	98.3	89.1	83.5
Czech Rep.	69.4	73.2	76.2	74.0
Slovakia	85.4	88.8	87.4	84.8
Slovenia	116.6	108.8	104.1	103.0
CE	**64.8**	**66.6**	**66.4**	**65.0**
Croatia	103.5	91.4	85.1	83.3
Bulgaria	75.3	73.3	69.3	68.6
Romania	56.5	54.7	53.0	52.8
Serbia	81.6	74.2	70.7	66.6
Bosnia a. H.	53.4	54.7	54.9	54.2
Albania	72.6	71.7	68.8	67.0
Kosovo	32.7	34.8	34.8	37.5
SEE	**68.4**	**64.8**	**61.9**	**60.9**
Russia	37.9	39.1	30.5	26.0
Ukraine	131.5	131.8	124.4	118.2
Belarus	70.2	79.1	73.1	74.8
EE	**44.7**	**46.4**	**37.4**	**32.9**
Turkey	46.4	48.3	56.3	59.2
Austria	**n.v.**	**n.v.**	**n.v.**	**n.v.**
Germany	n.v.	n.v.	n.v.	n.v.
Euro area	**124.3**	**124.5**	**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	2015	2016	2017e	2018f
Poland	4.18	4.36	4.33	4.23
Hungary	310	311	312	317
Czech Rep.	27.3	27.0	26.5	25.5
Slovakia	euro	euro	euro	euro
Slovenia	euro	euro	euro	euro
Croatia	7.61	7.53	7.45	7.46
Bulgaria	1.96	1.96	1.96	1.96
Romania	4.45	4.49	4.50	4.50
Serbia	121	123	124	125
Bosnia a. H.	1.96	1.96	1.96	1.96
Albania	140	137	137	139
Kosovo	euro	euro	euro	euro
Russia	68.0	74.1	62.0	64.3
Ukraine	24.3	28.3	27.9	29.6
Belarus	1.77	2.20	2.11	2.50
Turkey	3.02	3.34	3.92	4.35
Austria	**euro**	**euro**	**euro**	**euro**
Germany	euro	euro	euro	euro
Euro area	**euro**	**euro**	**euro**	**euro**
USA	**1.11**	**1.11**	**1.03**	**1.05**

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Ratings[1]

Countries	S&P	Moody's	Fitch
Poland	BBB+	A2	A-
Hungary	BBB-	Baa3	BBB-
Czech Rep.	AA-	A1	A+
Slovakia	A+	A2	A+
Slovenia	A	Baa3	A-
Croatia	BB	Ba2	BB
Bulgaria	BB+	Baa2	BBB-
Romania	BBB-	Baa3	BBB-
Serbia	BB-	Baa3	BB-
Bosnia a. H.	B	B3	NR
Albania	B+	B1	NR
Kosovo	NR	NR	NR
Russia	BB+	Ba1	BBB-
Ukraine	B-	Caa3	B-
Belarus	B-	Caa1	B-
Turkey	BB	Ba1	BB+
Austria	**AA+**	**Aa1**	**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	15-Mar[1]	Jun-17	Sep-17	Mar-18
vs EUR				
Poland	4.31	4.35	4.30	4.25
Hungary	310.32	315.0	310.0	315.0
Czech R.	27.02	26.0	26.5	25.6
Croatia	7.43	7.40	7.45	7.45
Romania	4.55	4.50	4.45	4.50
Serbia	123.90	123.0	124.0	125.0
Albania	135.31	137.0	138.0	140.0
vs USD				
Russia	59.1	60.0	60.0	62.0
Ukraine	26.88	27.00	27.00	28.50
Belarus	1.92	2.03	2.14	2.35
Turkey	3.72	3.90	3.80	4.10
EUR/USD	1.06	1.03	1.02	1.05

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

Key interest rate forecast

Countries	15-Mar[1]	Jun-17	Sep-17	Mar-18
Poland	1.50	1.50	1.50	1.50
Hungary	0.90	0.90	0.90	0.90
Czech R.	0.05	0.05	0.05	0.05
Romania	1.75	1.75	1.75	2.00
Russia	10.00	9.50	9.00	8.75
Turkey	8.00	8.00	8.00	10.00
Euro area	0.00	0.00	0.00	0.00
USA	1.00	1.25	1.50	1.75

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

3m money market rate forecast

Countries	15-Mar[1]	Jun-17	Sep-17	Mar-18
Poland	1.73	1.73	1.73	1.73
Hungary	0.23	0.30	0.40	0.60
Czech R.	0.28	0.30	0.30	0.40
Croatia	0.61	0.60	0.65	0.70
Romania	0.84	1.00	1.15	1.80
Russia	10.43	10.00	9.50	9.25
Turkey	12.27	12.50	12.70	10.80
Euro area	-0.33	-0.35	-0.35	-0.30
USA	1.15	1.60	1.85	2.10

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

2y LCY yield forecast

Countries	15-Mar[1]	Jun-17	Sep-17	Mar-18
Poland	2.16	2.3	2.4	2.5
Hungary*	1.66	1.5	1.6	1.8
Czech R.	-0.64	0.1	0.1	0.2
Croatia	1.44	1.3	1.3	1.4
Romania*	2.31	2.5	2.6	3.2
Russia	8.40	8.7	8.5	8.3
Turkey	11.31	11.7	11.7	10.5
Austria	-0.66	-0.8	-0.7	-0.5
Germany	-0.83	-0.8	-0.7	-0.6
USA	1.32	1.5	1.8	2.0

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

10y LCY yield forecast

Countries	15-Mar[1]	Jun-17	Sep-17	Mar-18
Poland	3.75	3.9	4.2	4.4
Hungary	3.73	3.8	4.1	4.4
Czech R.	0.87	1.0	1.2	1.4
Croatia	2.86	2.7	2.7	2.8
Romania	4.15	4.3	4.4	4.8
Russia	8.08	8.7	8.5	8.4
Turkey	11.02	11.5	11.7	10.5
Austria	0.61	0.7	0.9	1.2
Germany	0.42	0.4	0.6	0.9
USA	2.51	2.6	2.9	3.0

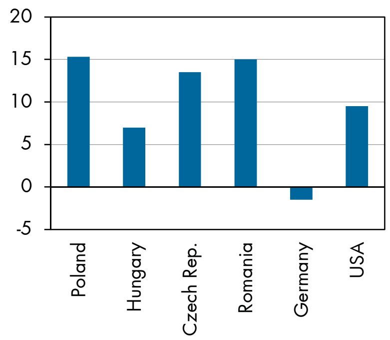
[1] 5:00 p.m. (CET)
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Spreads 10y LCY bonds over Bund

Countries	15-Mar[1]	Jun-17	Sep-17	Mar-18
Poland	333	350	355	350
Hungary	332	340	350	350
Czech R.	45	60	60	50
Croatia	245	230	210	190
Romania	374	390	380	390
Russia	767	830	790	750
Turkey	1061	1110	1110	960
Austria	19	25	25	30
USA	209	220	225	210

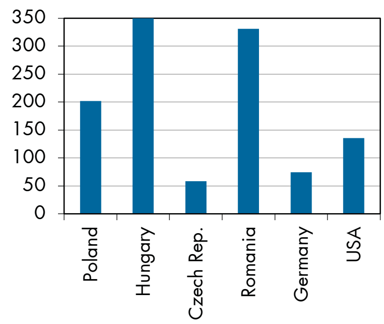
[1] 5:00 p.m. (CET); all values in bp
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Expected 10y LCY yield change



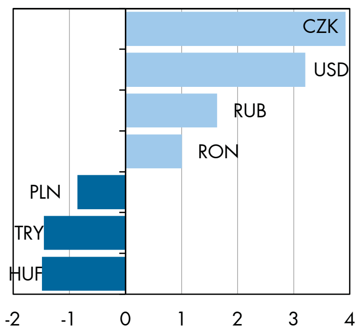
bp-change of 10y gov. bond yield in next 3 months
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Yield structure



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

LCY changes vs EUR (% qoq)[1]



** forecasts for 30 Jun-2017 in comparison to 15 Mar-2017*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Stock market indicators

	Earnings growth		Price/earnings ratio	
	2017e	2018f	2017e	2018f
ATX	27.0%	10.5%	12.9	11.7
WIG 30	8.7%	8.3%	12.9	11.9
BUX	-12.1%	13.0%	11.7	10.3
PX	2.9%	-3.1%	12.8	13.2
MICEX	12.3%	15.8%	6.1	5.3
BIST Nat. 100	18.1%	18.3%	9.0	7.6

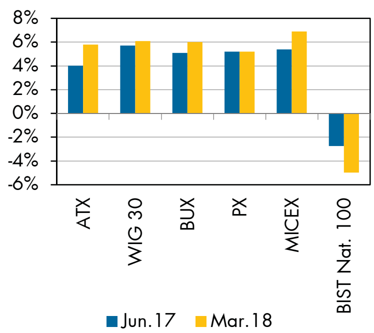
Data based on adjusted figures
Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

Stock market forecasts

	Index estimates			
	15-Mar[1]	Jun.17	Sep.17	Mar.18
ATX	2,817	2,930	2,790	2,980
MICEX	2,573	2,720	2,530	2,730
WIG 30	32,636	34,300	32,000	34,600
BUX	979	1,030	960	1,030
PX	1,993	2,100	1,980	2,130
BIST Nat. 100	89,446	87,000	84,000	85,000

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

Expected index performance



Source: RBI/Raiffeisen RESEARCH

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

Raiffeisen RESEARCH

CEE portfolio performs slightly better than the benchmark

- Early overweighting of Russian equities generated losses
- Local currency bonds mainly responsible for the outperformance
- All in all, outperformance of 5 basis points was generated

Sum of last quarter[1]

RBI portfolio (in EUR)		2.21%
Benchmark (in EUR)		2.16%
RBI outperformance (in EUR)		0.05 pp
by	weighting of equities vs bonds	0.00 pp
	regional equity weightings	-0.12 pp
	weighting of EB vs LCY bonds	-0.01 pp
	country weightings of LCY bonds	0.18 pp
	country weightings of EB EUR	0.00 pp
	country weightings of EB USD	0.00 pp
	joint effects / duration	0.00 pp

1 30 Dec 2016 - 15 Mar 2017
EB...Eurobonds
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Period 1: 30 Dec 2016 - 24 Jan 2017

RBI portfolio (in EUR)		0.34%
Benchmark (in EUR)		0.25%
RBI outperformance (in EUR)		0.09 pp
by	weighting of equities vs bonds	0.00 pp
	regional equity weightings	-0.03 pp
	weighting of EB vs LCY bonds	0.00 pp
	country weightings of LCY bonds	0.12 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: 24 Jan 2017 - 24 Feb 2017

RBI portfolio (in EUR)		3.58%
Benchmark (in EUR)		3.58%
RBI outperformance (in EUR)		0.00 pp
by	weighting of equities vs bonds	0.00 pp
	regional equity weightings	-0.09 pp
	weighting of EB vs LCY bonds	0.00 pp
	country weightings of LCY bonds	0.09 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: 24 Feb 2017 - 15 Mar 2017

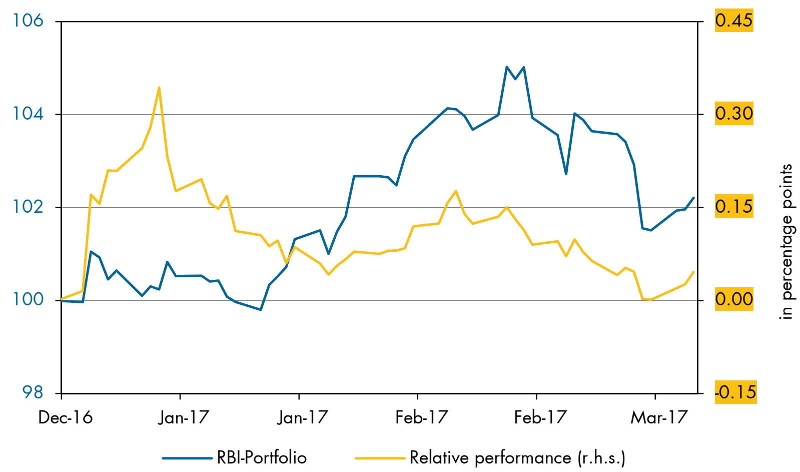
RBI portfolio (in EUR)		-1.65%
Benchmark (in EUR)		-1.61%
RBI outperformance (in EUR)		-0.04 pp
by	weighting of equities vs bonds	0.00 pp
	regional equity weightings	0.01 pp
	weighting of EB vs LCY bonds	-0.01 pp
	country weightings of LCY bonds	-0.03 pp
	country weightings of EB EUR	0.00 pp
	country weightings of EB USD	0.00 pp
	joint effects / duration	0.00 pp

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

In the past quarter (1 January 2017 to 15 March 2017), the **CEE portfolio outperformed the benchmark by a total of 5 basis points (bp)**, and registered absolute performance of 2.21%. Most of this outperformance was registered during the first part of the period, while period two saw neutral performance, and modest underperformance was recorded in the final period. The biggest contribution to the outperformance stemmed from the country weightings in the local currency bond segment (18bp). By contrast, the regional equity positions were only able to post outperformance in the third period. The equity segment was continuously weighted neutral versus bonds. **Within the equity portfolio**, Turkey was consistently underweighted, which initially generated positive performance and then later negative performance. The weighting of Polish equities was increased step-by-step, which also had a beneficial impact on performance. During the first period Russia was overweighted by 3pp, with this later shifted back to a neutral weighting due to the losses. In the **bond segment**, due to the low yields Czech government bonds were steadily underweighted in order to finance the overweighting of Hungarian and Polish government bonds, with **Poland in particular making a positive contribution to performance**, whereas Hungary had a negative effect. Russia was also continuously overweighted, but the weighting was reduced from period to period; nevertheless, this position ultimately made a positive performance contribution. Turkish government bonds were initially underweighted, with this position shifted to neutral in the second period and moved to overweighted in period three.

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

Performance 2016



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

CEE portfolio

	2014	2015	2016	YTD
Benchmark	-8.11%	2.42%	11.20%	2.16%
Portfolio	-8.23%	1.78%	11.90%	2.21%
Relative performance	-0.12 pp	-0.64 pp	0.70 pp	0.05 pp

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

CEE equities preferred over CEE bonds in Q2

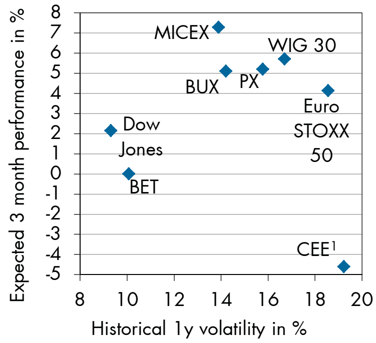
- **Recovery on the equity market remains intact**
- **Performance of CE bonds suffering from rising yields**
- **High carry in RU vs. high risk in TR**

Looking to the second quarter, we believe that the equity markets in the CEE region have significantly better potential than the bond markets. The main reasons for this are the following: Despite the strong increases in prices on the **global equity market** which have been seen already, we expect continued support for this asset class **in the second quarter**, as the trends in both economic performance and corporate profits are pointing upwards and there are still hopes that the policies of the new US president will be business-friendly. We tend to see risks emerging more in the second half of the year, when potential negative surprises and a steadily rising level of US interest rates collides with the already very high valuations of US equities. In such an environment, the CEE equity markets should enjoy global support in the second quarter, while Russia and Poland also have additional reasons for strong performance (cf. page 9). The **situation for bonds**, on the other hand, is different. In our benchmark, Central and Eastern Europe is heavily weighted in the bond segment, where rising yields are likely to have a strongly negative impact on bond performance. Due to the low weighting in our benchmark, the high carry offered by Russia will probably not be able to compensate for that (and with regard to Turkey we are actually expecting more significant currency depreciation as the year progresses, which puts the carry on Turkish bonds in a relative light).

Consequently, within the CEE portfolio, we opt to overweight equities over bonds, with a well-defined focus on certain countries within these two asset classes.

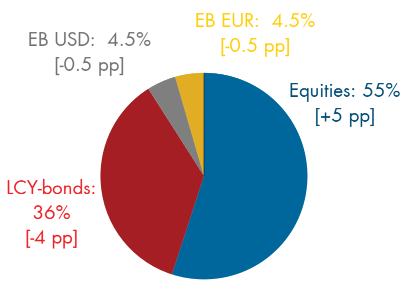
Financial analyst: Valentin Hofstätter, CFA, RBI Vienna

Risk-return (%)



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

CEE portfolio weightings Q4 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	9.2	9.2	4.9	4.9	-8.6	-6.8	2.2	2.2	-2.2	-2.2	2.5	4.5
Hungary	18.6	17.3	2.7	2.5	6.1	7.3	4.4	1.8	-1.1	-1.3	8.1	9.4
Poland	18.1	16.7	21.2	18.0	-0.5	0.2	4.1	2.3	2.7	0.0	4.6	5.4
Romania	12.5	11.5	12.2	12.6	12.0	12.9	3.3	0.2	-0.3	0.0	1.1	1.9
Russia	21.9	16.1	-7.0	-9.5	-5.7	1.1	13.3	3.4	7.0	3.0	-1.7	8.1
Turkey	27.4	16.9	11.3	16.5	-2.5	7.6	19.8	6.1	-2.4	2.1	-2.7	7.4
Croatia	12.1	11.8	9.0	6.9	2.2	1.9	1.9	2.8	1.6	-0.3	7.3	6.9
CEE	13.3	-	2.2	-			2.7	-	0.7	-		

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

Cautiousness on increasingly hawkish central bank backdrops

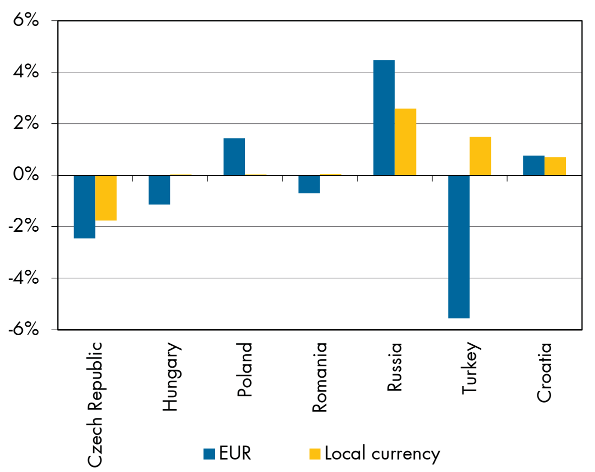
- **Our major call is to switch CZGBs from underweight to overweight in anticipation of the expected CZKexit in Q2**
- **Fairly neutral positioning in other CESEE names due to expected core market pressure**
- **We finance our slightly overweight for Russia with Turkey with the latter having the highest beta**

Portfolio weightings: bonds*

	Portfolio	Benchmark	Difference
EB USD	10.0%	10.0%	0.0%
EB EUR	10.0%	10.0%	0.0%
LCY	80.0%	80.0%	0.0%
Czech Republic	22.0%	20.0%	2.0%
Hungary	20.0%	20.0%	0.0%
Poland	44.0%	45.0%	-1.0%
Romania	4.0%	5.0%	-1.0%
Russia	7.0%	5.0%	2.0%
Turkey	3.0%	5.0%	-2.0%
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

Following significant spread widening during March, CZGBs regained some attractiveness versus Bunds. Being underweight, Czech koruna bonds therefore played out well. However, in anticipation of an earlier rather than later exit from the CZK FX weakening regime, we have switched our CZGB position to overweight as our FX strategist forecasts significant CZK gains vs. the euro if the koruna cap was to be removed in Q2. Although risk seems more or less balanced in Hungary, and also in Poland in the meantime, further yield increases – especially at the back-end of the LCY yield curves – are on the cards. The ongoing appeal of the reflation trade in these two markets and expectations of further moderate upwards pressure on yields stemming from the core bond markets going forward prompts us to become neutral in Hungary and slightly underweight in Poland. Poland's beta to rising UST yields should be higher than Hungary's due to the higher share of USD-investors in the POLGB market compared to Hungary. In SEE, we have already witnessed a repricing of Romanian credit risks on the back of elevated political/fiscal risks, but with more to come, a moderate underweight position for ROMGBs remains justified in our view. In the CEE high-yielding local debt markets we are a bit more cautious on Russia, mainly due to the elevated short-term correction risks for the RUB exchange rate. We finance this tactical overweight position with TURKGBs. Turkey is the highest-beta sovereign credit in our CEE debt market research universe, and could therefore face some headwinds in anticipation of higher UST yields and a stronger USD versus the EUR. On top of that, the (geo)political risks are far from abating (referendum on presidential system in mid-April, growing tensions with the EU, Syrian conflict, etc.), while economic fundamentals are set to continue deteriorating at least in the short run.

Financial analyst: Stephan Imre; RBI Vienna

Expected bond market performance (%)

	3m		6m		9m		12m	
Countries	**EUR**	**LCY**	**EUR**	**LCY**	**EUR**	**LCY**	**EUR**	**LCY**
Czech Republic	3.3	-0.5	-0.1	-2.0	1.5	-2.6	1.9	-3.2
Hungary	-2.8	-0.8	-3.0	-2.6	-5.5	-3.6	-5.6	-3.7
Poland	-2.1	-0.6	-2.4	-2.0	-1.9	-2.6	-2.0	-2.8
Romania	0.1	-1.3	1.7	-0.8	0.6	-1.8	0.1	-1.3
Russia	-1.6	-1.7	2.6	1.6	2.2	4.5	0.6	6.2
Turkey	-5.1	-2.2	-0.1	-0.7	-1.5	6.2	0.2	11.9

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

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

Turkey is still the biggest underweighting

- **Massive political uncertainties cause underweighting of Turkey**
- **Russia overweighted based on expected economic recovery and forecast for improving oil prices in 2017**
- **Macroeconomic conditions and moderate valuation justify a mild overweighting of Poland**

For the second quarter of 2017, **Turkey** continues to be our strongest **underweight** (by three percentage points (pp)). This is justified by a number of negative factors, which are still pertinent in our view: The manner in which President Erdogan wishes to transform Turkey into a presidential system (referendum slated for 16 April) is not only leading to harsher rhetoric, it has resulted in direct confrontation with some EU countries. Along with the muted interest in investments, the decline in tourism due to the political uncertainty and terrorist attacks has caused the Turkish economy to slip into a recession. Although the leading indicators for January and February point to a better start to this year, economic conditions remain difficult with the weak currency and rising rates of inflation. The gradually rising US interest rates and further appreciation of USD will also have a negative effect, because of the relatively high share of USD debt.

Russia remains the **strongest overweight** position, but we have taken a rather conservative position of 2pp, due to the slight weakening of the supporting factors. It does not appear that the desired end to the icy relations between the USA and Russia is on the immediate horizon, and the latest development of the oil price has also weighed on investors' mood. Nevertheless, the Russian economy does appear to be slowly emerging from the worst of it, and the oil price should rise again slightly during the course of the year, which should provide some support. We also take a positive view of the **Polish equity market** (1pp), due to the support from the macroeconomic conditions and moderate valuations. Since the latest political change of heart (cf. forced conversion of CHF loans), sentiment on Polish equities has swung around again, but in light of the price gains which have already occurred we only opt for a small overweighting.

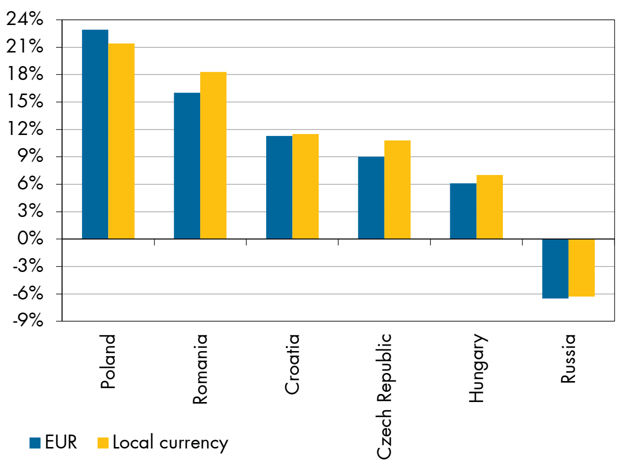
Financial analyst: Andreas Schiller, CFA, RBI Vienna

Portfolio weightings: stocks*

	Portfolio	Benchmark	Difference
Czech Republic	8.0%	8.0%	0.0%
Hungary	7.0%	7.0%	0.0%
Poland	26.0%	25.0%	1.0%
Russia	37.0%	35.0%	2.0%
Turkey	22.0%	25.0%	-3.0%
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	9.3	5.2	0.0	-2.0	11.9	7.2	11.0	5.2
Hungary	3.5	5.1	-1.8	-1.9	5.6	7.2	4.4	6.0
Poland	4.8	5.7	-1.4	-1.7	9.2	7.6	7.7	6.1
Russia	7.1	5.4	2.0	-0.6	7.2	7.9	3.1	6.9
Turkey	-2.4	-1.1	-2.8	-5.0	-5.6	-0.5	-11.5	-3.9

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

Spring coming to CEE growth

- **Sentiment and growth outlook improving across the region – especially in Romania, Croatia and Poland**
- **Russia's growth outlook unchanged at 1%, but risks to the upside**
- **Inflation: rising faster than expected in CE, we increase our 2017 average inflation forecast from 1.5% to 1.9% yoy**
- **CE/SEE key rate hikes not likely in 2017, but initial steps to phase out unconventional monetary policy measures**

Real GDP 2017 forecasts (% yoy)

Country	New	Old	change*
AT	1.7	1.3	▲ 0.4
DE	1.7	1.7	-
EA	**1.9**	**1.5**	**▲ 0.4**
PL	3.3	3.0	▲ 0.3
HU	3.2	3.2	-
CZ	2.7	2.7	-
SK	3.3	3.3	-
SI	2.7	2.7	-
CE	**3.1**	**3.0**	**◥ 0.1**
HR	3.3	2.8	▲ 0.5
BG	3.3	3.0	▲ 0.3
RO	4.2	3.6	▲ 0.6
RS	3.0	3.0	-
BA	3.0	3.0	-
AL	4.0	4.0	-
KS	3.5	3.5	-
SEE	**3.7**	**3.3**	**▲ 0.4**
RU	1.0	1.0	-
UA	2.0	2.0	-
BY	-0.5	0.0	▼ -0.5
EE	**1.0**	**1.0**	**-**

▲ upward revision; ◥ minor upward revision;
▶ no change; ◢ minor downward revsion;
▼ downward revision;
** Forecast revisions since December 2016*
Source: Nationals sources, RBI/Raiffeisen RESEARCH

GDP (real, % yoy)

Raiffeisen Research vs. EU-Commission			
Country	2016	2017f	2018f
Euro area	1.7 (1.7)	1.9 (1.6)	1.7 (1.8)
Germany	1.8 (1.9)	1.7 (1.6)	1.5 (1.8)
Austria	1.5 (1.5)	1.7 (1.6)	1.5 (1.6)
Poland	2.8 (2.8)	3.3 (3.2)	3 (3.1)
Czech Rep.	2.3 (2.4)	2.7 (2.6)	2.5 (2.7)
Hungary	2 (1.9)	3.2 (3.5)	3.4 (3.2)
Slovakia	3.3 (3.3)	3.3 (2.9)	4 (3.6)
Slovenia	2.5 (2.5)	2.7 (3)	2.5 (3)
Croatia	2.9 (2.8)	3.3 (3.1)	2.8 (2.5)
Romania	4.8 (4.9)	4.2 (4.4)	3.5 (3.7)
Bulgaria	3.4 (3.3)	3.3 (2.9)	3.3 (2.8)

green = Raiffeisen RESEARCH fcst > EC fcst
red = Raiffeisen RESEARCH fcst < EC fcst
Source: European Comission Winter forecast, Nationals sources, RBI/Raiffeisen RESEARCH

Sentiment and growth outlook

In the **CE-3 (Czech Republic, Hungary and Poland)**, manufacturing PMI (equally weighted average) increased for the 8th time in a row in February, and currently stands at 56.1, marking its highest reading since January 2011. If the CE-3's PMI stagnates in March, the Q1 2017 reading will equal 55.8, compared to 53.7 in Q4. Hence the survey data hints at an acceleration of business-cycle dynamics in the region in Q1. On a country level, the **Czech Republic** stands out with an increase of 1.9 points to 57.6. Thus the strong performance of Czech PMI continued in February, driven first and foremost by production and new orders in the last two months. In **Hungary**, manufacturing PMI (three-month moving average) increased by 0.9 points to 56.4, while the **Polish** PMI dropped slightly from 54.8 to 54.2, largely due to the production sub-component.

In **Central Europe (CE)** the growth picture looks favourable, despite some negative surprises in Hungary and Czech Republic for Q4 GDP. For **Poland** we raised our growth estimate for 2017 from 3.0% to 3.3%, which is close to the Bloomberg consensus view and the EU Commission's winter forecast of 3.2% yoy. For 2018 we likewise upped our quite cautious outlook for Poland by 0.5pp to 3% as well, as we now expect stronger investment activity. This stems from the incumbent administration's actions, which seem to be perceived somewhat less negatively than initially expected, and so not as harmful to the business climate. The **Czech** and **Hungarian** growth forecasts for 2017 are unchanged so far at 2.7% and 3.2% yoy (the 2016 figures were lowered slightly to 2.3% in the Czech Republic and 2.0% in Hungary, given the weaker Q4). Meanwhile, the Slovak economy is moving forward at 3.3% both in 2016 and 2017 – only in 2018 do we see an acceleration towards 4%. Finally, Slovenia continues to grow slightly above its potential in 2017/18 at a rate of around 2.5%-2.7%. **The CE region overall should grow by 3.1% in 2017 (up a revised +0.1pp) and by 3.0% in 2018 (up a revised +0.3pp).**

The dynamic indicators of **South-East Europe (SEE)** have seen the biggest upwards revisions over the last year, and this trend is set to continue. We hiked the 2017 growth forecast for **Romania** from 3.6% to 4.2%, and the 2018 outlook from 3.0% to 3.5% on the back of higher spending and the minimum wages enforced by the government. As collateral damage, the Romanian budget deficit is expected to increase significantly above the Maastricht criterion, with projections of 3.6% and 3.8% of GDP in 2017/2018. Also, we see the **Bulgarian** economy advancing slightly at 3.3% (+0.3pp), i.e. the same growth as in 2016. In the Western Balkans we have once again increased the economic growth forecast for **Croatia** from 3% to 3.3% (+0.3pp) this year. Still, we see considerable political risks in Bosnia, which – if they materialise – could have a negative impact on the IMF programme, and hence on the economy. **Overall we reckon the SEE region will grow by 3.7% in 2017 (up a revised +0.4pp) and by 3.3% in 2018 (up a revised +0.2pp).**

The situation in **Eastern Europe (EE)** is mostly improving too. In **Russia**, the recession has essentially ended with the 2016 full-year figure at only -0.2% yoy.

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

In **Ukraine**, the fourth quarter surprised us with a strong GDP growth reading of 4.7% yoy (partly due to stronger agriculture), elevating full-year growth to 2.2% from our previously estimated 1-1.5% yoy. Nevertheless, so far we have refrained from increasing our GDP forecasts for 2017, and still project rather slow growth of 1.0% yoy for Russia and 2% for Ukraine. The only downwards revision has been for **Belarus**, from 0% to -0.5% growth in 2017. Russia looks less willing to subsidise its neighbour's economy with cheap gas and oil deliveries, leading to mounting concerns about the external financing position of Belarus. **The EE region is projected to grow by 1% in 2017 and by 1.6% in 2018 (no change).**

Inflation outlook

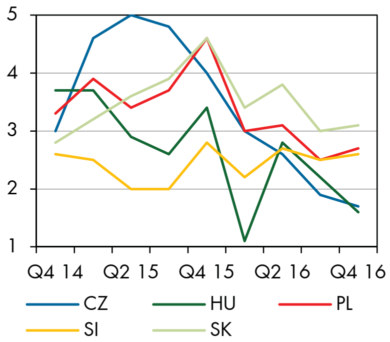
As expected, consumer prices (CPI) in many **CE/SEE** countries have increased quickly over recent months. The main trigger has been the global energy price effect, as the oil price is considerably higher than one year ago. Country-specific – temporary or more persistent – factors like tight labour markets, administrative price changes, taxes and food prices played a role as well. For the **euro area**, the energy price effect has been properly assessed, but we think core inflation might inch up higher than anticipated, resulting in headline inflation of 1.8% yoy on average in 2017 (instead of 1.5%). For several CE/SEE countries, inflation rates surprised on the upside and triggered a review and upwards adjustment of our projections made in December last year. With regard to **CE-3 inflation**, we made the biggest upwards adjustments for **Poland** and **Hungary**, and now project average inflation rates for 2017 will be 0.8pp higher than in December at 1.9% yoy (Poland) and 3.3% yoy in (Hungary). Also, in the **Czech Republic**, we upped the inflation forecast by 0.5pp to the 2017 average of 2.5% yoy. In the case of the Czech Republic, the swift increase to 2.2% yoy as of January and the prospect of inflation above the 2% central bank target throughout 2017 has major implications for the CZK trajectory. It increases the chances of an earlier than anticipated exit from the CZK cap at EUR/CZK 27, which in turn will lead to some FX volatility and an appreciation of the Czech koruna after the exit. February's inflation data could bring some more clarity on whether the Czech National Bank will move in Q2, i.e. shortly after its hard commitment for the cap ends, or only later this year. **We do not predict any CE-3 key rates will be hiked in 2017** while some initial steps to phase out unconventional monetary policy measures/instruments look feasible in 2017.

In **SEE**, the inflation picture is more heterogeneous. For **Romania**, where inflation has been heavily supressed by tax cuts, we cut our inflation forecast for 2017 by 0.3pp to 0.9% yoy (yearly average) – despite the booming economy. Likewise we now see slightly less inflation pressure in **Bulgaria**, where we cut our CPI forecast by 0.3pp to last year's level of 1.3% yoy (yearly average). In Croatia, however, inflation is picking up faster at 1.9% yoy given the further improvement in domestic demand.

In **Russia**, disinflation is making faster progress compared to our cautious forecast, as 2016 ended with an inflation rate of 5.4% yoy (2016 average of 7.1% yoy). While we expect the inflation rate will remain above the CBR target of 4%, inflation at the end of 2017 will come close at 4.5% yoy (2017 average of 4.7% yoy). In **Ukraine**, the inflation rate fell strongly in H2 last year, meeting the NBU's goal of 12% +/-3 at the end of the year. We think that Ukrainian inflation could even drop to high single digits by end-2017 (with a yearly average of 10.7% yoy), if political and FX stability is maintained throughout 2017.

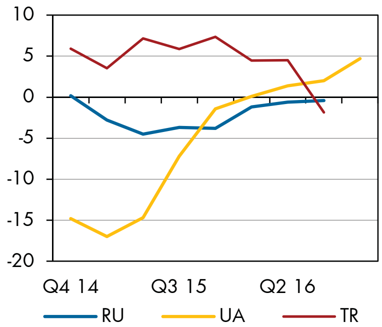
Financial analysts: Matthias Reith, CIIA; Andreas Schwabe, CFA; RBI Vienna

CE GDP growth (% yoy)



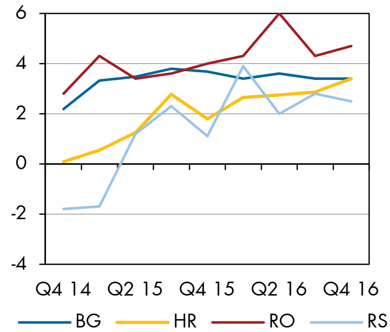
Source: Bloomberg, Raiffeisen RESEARCH

RU and UA GDP growth (% yoy)



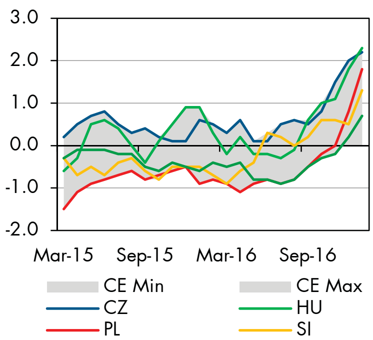
Source: Bloomberg, Raiffeisen RESEARCH

SEE GDP growth (% yoy)



Source: Bloomberg, Raiffeisen RESEARCH

Inflation raise over recent months*

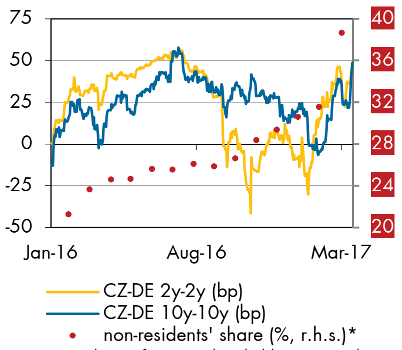


* % yoy
Source: National sources, RBI/Raiffeisen RESEARCH

Bullish on CZGBs due to CZKexit expectations, elsewhere cautious

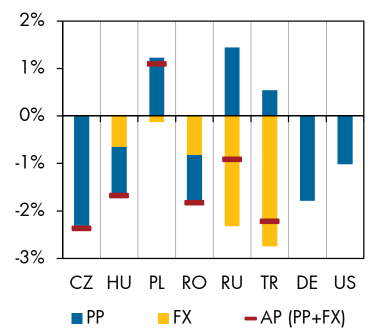
- **Since we expect CZKexit and, in turn, CZK gains in Q2, we buy long-end CZGBs**
- **Reflation trade in PL and HU seems a bit too aggressive, but expected core market pressure warrants cautiousness**
- **Bearish short-term outlook for RUB keeps our bearish OFZ view intact, but only for the short-term**
- **Although TURKGBs could gain on a stabilising TRY, overall risk cocktail too strong for us**

CZGB spreads vs. Bunds and NRH*



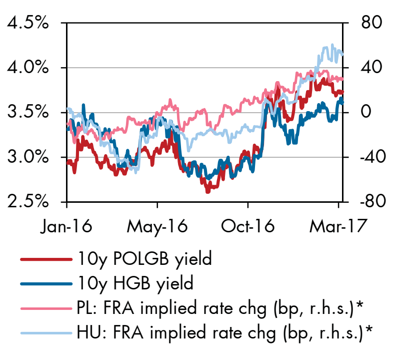
** NRH: % share of non-resident holdings in total CZK government bonds (CZGBs) outstanding*
CZ-DE 2y-2y: 5y high 153, 5y low -42 (current: 44)
CZ-DE 10y-10y: 5y high 202, 5y low -23 (current: 43)
Source: Bloomberg, CZ MinFin, RBI/Raiffeisen RESEARCH

Year to date performance* 10y bonds



** absolute performance since 01/01/2017 until 15/03/2017; FX: Currency performance (chg LCY/EUR); PP: Bond price performance (price chg + carry)*
AP: Absolute performance (PP + FX)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

PL & HU: FRA-implied rates too high



** FRA market implied rate: 12x15 FRA minus 3m offered rate*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Czech Republic: exposure added on wider spreads, looming CZKexit

With CZGB yields creeping upwards in recent weeks, the spread to Bunds began to normalise somewhat. Moreover, according to the latest CNB data available, the speculative positioning from non-resident investors in the local debt market skyrocketed in anticipation of a CZKexit sooner rather than later. As our chart shows, the share of non-resident investors in total CZK bonds outstanding reached 38% as of end-January, doubling during the past 1½ years. Since we forecast the FX manipulation regime will be abandoned in Q2, we are buying CZGBs in anticipation of CZK currency gains. In any case, the exit will produce high volatility and mass profit-taking on the back of unwinding speculative positions, and could even lead to temporary market disruptions. So only volatility-proven investors should position and target a longer-term investment horizon.

Hungary: looming HUF correction prompts us to downgrade HGBs to Hold

Since our last CEE Debt Market Strategy (published on 24 February), Hungarian forint government bonds have suffered some losses. The increasing external pressure especially, i.e. price losses of USTs and Bunds, pushed longer-dated HGB yields up moderately. While short-term gains are on the cards in our view, we are more cautious about the end-Q2 investment horizon. Regardless of our expectations of an increasingly hawkish global central bank backdrop, market participants will likely demand a still higher inflation premium and also challenge the central bank's ultra-loose liquidity management policy. From a relative value perspective, however, we continue to prefer HGBs versus ROMGBs, with the National Bank of Romania likely to be the first in CESEE to tighten liquidity conditions in line with increasing reflation dynamics.

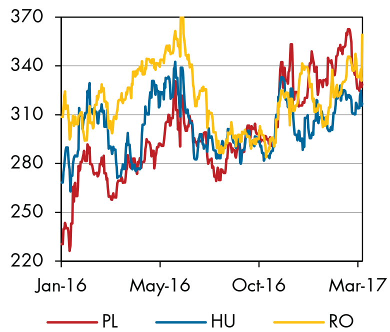
Poland: improving risk profile leads to balanced risks for Polish debt

Polish local debt put in a neutral performance in the year-to-date with FX gains counterbalancing the moderate losses in the price component. As we believe the current rate-hike expectations are exaggerated, pricing-out the latter should weaken the PLN vs the EUR somewhat going forward. Despite skyrocketing CPI headline rates in the year-to-date, the central bank remains sanguine in terms of local reflation dynamics due to the partly temporary effects of the major drivers (energy and food). We share this view, but expect the decreasing tolerance for negative real yields to finally prompt the MPC to start discussing rate hikes in H2. In anticipation of growing upwards pressure stemming from the core bond markets, the long-end of the Polish curve should produce a moderate bear steepening on our end-June recommendation horizon, especially due to the high share of USD-based investors in longer-dated POLGBs. Net-net, we maintain our Hold recommendation as there is still a significant risk buffer in place in view of the Bund spreads. Also, financial market stability risks have fallen significantly now the CHF loan conversions are not likely to be carried out by the authorities.

Romania: short-term hold following significant correction

As the pre-election pledges of further tax cuts and wage increases entail significant risks of jeopardising next year's budget performance, we have lifted our budget deficit forecast well above the Maastricht threshold. Market participants in the ROMGB market also seem to share these concerns with the 10y LCY bond posting almost 2% losses in the year-to-date. The ROMGB auctions in March – MinFin rejected all bids at two auctions – also reflect the soured sentiment towards the Romanian local financial markets. However, debt managers do have a sufficient cash buffer so there are no imminent refinancing risks. Apart from Fed tail risks, intensifying rate-hike speculation on the local scene is set to exert further upwards pressure on RON yields going forward. This should materialise not only at the back end of the ROMGB curve, as the BNR could start tightening liquidity later in 2017 in preparation for a moderate rate-hiking cycle. Nevertheless, for our end-June horizon we maintain our Hold recommendation for ROMGBs.

10y-10y spread over Bunds (bp)

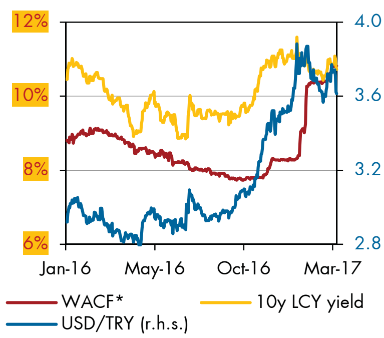


PL: 5y high: 424; 5y low: 161 (current: 332)
HU: 5y high: 779; 5y low: 234 (current: 324)
RO: 5y high: 542; 5y low: 226 (current: 338)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Russia: remaining on Sell due to bearish short-term RUB outlook

The bullish positioning on faster-than-expected disinflation dynamics and a strong RUB exchange rate (despite local FX market interventions aimed at hindering the RUB from reaching overly strong levels), led to an outperformance of long-end OFZs during March. At the end of February, we took profits in Russian RUB government bonds and moved our recommendation to Sell. We maintain this call chiefly because we expect a weaker RUB by the end of June. In addition, supply-demand dynamics remain OFZ-negative as the MinFin aims to print over RUB 1tn net of OFZs (2x higher than in 2016). However, once we see a higher RUB exchange rate vs. the hard currencies and higher yield levels, the appeal of the OFZ carry trade could return. For more flexible investors, we still prefer floating OFZs as they have lower volatility. If 10y fixed-coupon papers head significantly below 8% we would recommend considering opening speculative short positions.

High WACF* support TRY

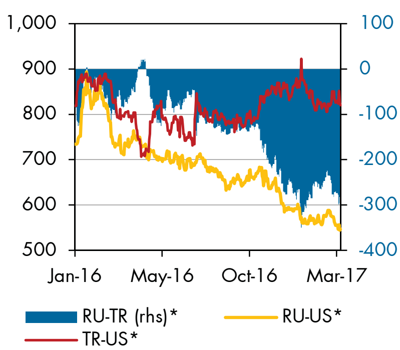


** weighted average costs of funding*
WACF: 5y high 10.8, 5y low 4.5
USD/TRY: 5y high 3.88, 5y low 1.75
10y yield: 5y high 11.6, 5y low 6.0
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Turkey: outright long is too hot for us

The TCMB hiked the late liquidity window by 75bp to 11.75% in March whilst leaving all other rates unchanged (1w repo and o/n IR corridor still at 8% and 7.25%-9.25% respectively). The lira and TURKGBs responded optimistically to the potential tightening, while this will be a function of the future funding mix. Weighted average costs of funding (WACF) increased to 10.8% by mid-March (YTD increase 250bp) and we expect more to come in order to stabilise the TRY markets more sustainably. Although the balancing act for the TCMB continues between the demands of the markets and local politicians, their recent hands-on attitude could lure more yield-hunters back to the TURKGB market. Nevertheless, we continue to assume that the TCMB will finally be forced to establish a more conventional monetary policy framework in H2 at the latest. Turkey is the highest-beta sovereign credit in our CEE debt market research universe, and could therefore face some headwinds in anticipation of higher UST yields and a stronger USD versus the EUR. On top of that, the (geo)political risks are far from abating (referendum on presidential system in mid-April, growing tensions with the EU, Syrian conflict, etc.), while economic fundamentals are set to continue deteriorating at least in the short run.

10y spreads vs. US: Prefer still RU*



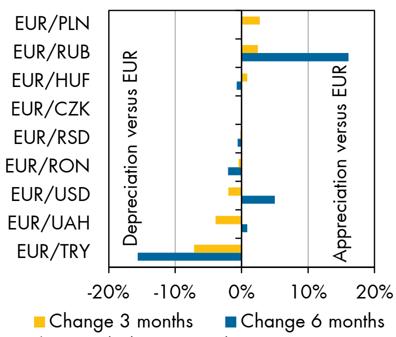
** 10y LCY yield spreads vs US and RU vs TR (bp)*
RU-TR 5y high: 748, 5y low: -350
RU-US 5y high: 1400, 5y low: 439
TR-US 5y high: 922, 5y low: 405
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Financial analyst: Stephan Imre, RBI Vienna

CZK FX regime abandonment predicted for Q2

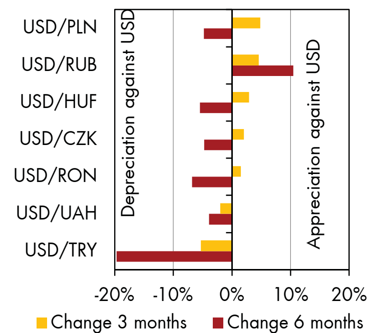
- **Czech Central Bank now predicted to end FX regime in Q2 2017 due to rising inflation**
- **RON relatively unmoved by political turmoil during Q1**
- **RUB expected to be less volatile thanks to FX replenishing program**
- **Turkish lira to remain under pressure as vote on implementation of presidential system scheduled for 16 April**

Change of LCY value to EUR (%)



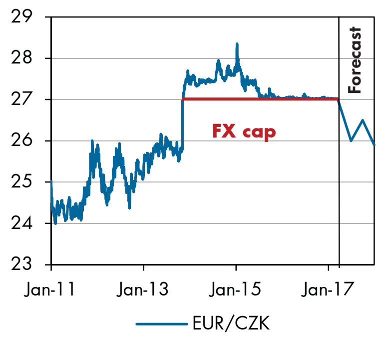
EUR/PLN 5y high: 4.50 5y low: 3.99
EUR/RUB 5y high: 90.9 5y low: 38.5
EUR/HUF 5y high: 322.6 5y low: 275.5
EUR/CZK 5y high: 28.4 5y low: 24.3
EUR/RSD 5y high: 124.1 5y low: 110.4
EUR/RON 5y high: 4.64 5y low: 4.30
EUR/USD 5y high: 1.39 5y low: 1.04
EUR/UAH 5y high: 37.8 5y low: 9.7
EUR/TRY 5y high: 4.14 5y low: 2.19
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Change of LCY value to USD (%)



USD/PLN 5y high: 4.28 5y low: 2.99
USD/RUB 5y high: 82.3 5y low: 29.0
USD/HUF 5y high: 302 5y low: 210
USD/CZK 5y high: 26.1 5y low: 18.4
USD/RON 5y high: 4.44 5y low: 3.17
USD/UAH 5y high: 33.8 5y low: 8.0
USD/TRY 5y high: 3.88 5y low: 1.75
Source: Bloomberg, RBI/Raiffeisen RESEARCH

End of EUR/CZK cap expected for Q2



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

The CE and SEE currencies experienced limited volatility throughout the first quarter of 2017 as expected, with the EUR/PLN and EUR/RON deviating marginally from this trend. While the Polish zloty initially continued its appreciation trend that started in late-2016, it soon encountered stronger resistance at 4.30 to the euro, remaining at this level for most of Q1. The Romanian leu, on the other hand, was shaken by a short-lived political conflict, but the effects were limited for the RON as well by comparison. That said, overall our take from the Q1 CEE strategy for only limited CE and SEE currency movements proved correct.
For the EE region, however, things did not work out as smoothly. We saw stronger RUB appreciation against the USD than we had originally expected, driven among other things by a more hawkish comment from the Russian Central Bank that kept interest rates unchanged. The FX replenishing that we mentioned in the Q1 strategy was then introduced to help weaken the rouble, but despite the fall in the oil price later on in Q1 2017, the rouble barely managed to depreciate back towards USD/RUB 60, so there was less weakening than we had originally estimated. **The Turkish lira, for which we had expected stabilisation at the already very elevated levels, saw more depreciation throughout Q1** as the political turmoil increased further and the Turkish Central Bank was unable to provide adequate support via monetary policy.

Outlook for Q2 2017

The most important call in CE for the second quarter of 2017 is the abandoning of the Czech FX regime that was introduced in late-2013 as a monetary policy tool. With inflation rising faster above the Czech Central Bank's (CNB) CPI target of 2% yoy, and with the fairly clear CNB wording about an end in mid-2017, we have revised our previous call for an end of the regime towards Q2 2017. While we reckon it is most likely the regime will be abandoned at the monetary council meeting in May, there is risk the CNB could already act in April. In any case, the abandonment should result in elevated volatility for the CZK with short-term movements, possibly even bringing a weaker CZK. This depends on the withdrawal of speculative capital that has seen an immense build-up over recent months. If the volatility gets too strong the CNB could also start intervening to smooth CZK movements, albeit, in our view, giving no indication of a EUR/CZK target in this context. By contrast, the Polish zloty and the Hungarian forint should encounter subdued volatility throughout the second quarter, while overall we could see some very moderate depreciation against the euro on comments by the respective central banks to keep interest rates low for longer. That said we have a buy recommendation for the EUR/CZK, leaving the EUR/PLN and the EUR/HUF on hold. Given our outlook in favour of more USD strengthening, however, we have a sell recommendation for the PLN and HUF against the USD, with a hold recommendation for the USD/CZK.
Movements for SEE currencies should again be subdued against the euro during Q2, with a setback against the USD due to the dollar strengthening mentioned above.

For the EE region **the Russian rouble should see less volatility against the USD when compared to previous quarters**. Officials seem to favour a USD/RUB rate around 60, while the introduction of the FX intervention plan supports a less volatile RUB movement. Our assumption of an oil price increase should give support to the rouble, while the mentioned FX interventions and a rate cut by the Russian Central Bank (CBR) should counterbalance any strengthening potential well below USD/RUB 60. That said, we have a hold recommendation for the USD/RUB and EUR/RUB. For the USD/BYN and USD/UAH we continue to expect some basic depreciation, though the timing and the magnitude of the depreciation remain tough to forecast. We have a sell recommendation for USD/BYN and USD/UAH for the second quarter.

For the Turkish lira we remain very cautious, not only due to the political turmoil that is diminishing investor confidence, or the lack of monetary policy support by the Turkish Central Bank, but also due to the faster US interest rate hiking cycle projected and the thereby stronger USD. Bear in mind that the Turkish economy is highly indebted in US dollars, and so susceptible to these external effects. The referendum on the implementation of a presidential system in Turkey (on 16 April) could exert additional pressures on the lira, even though political calming may set in thereafter as Erdogan reaches his goal. We have a sell recommendation for the Turkish lira against the USD for Q2 on a strengthening dollar, whilst keeping a hold recommendation for the EUR/TRY.

Outlook for 12 months

Taking a one-year outlook for the CE region we have a buy recommendation for the Czech koruna against both the EUR and USD. After the FX regime is abandoned and the initial elevated volatility mentioned above that could continue throughout Q2, and even Q3 2017, ends, we expect the **CZK to appreciate continuously** as speculative capital leaves the Czech market. While the Polish zloty could see some moderate appreciation against the euro based on supportive economic developments and an additional calming of the political component, we would refrain from a buy recommendation against both the EUR and the USD. The same holds true for the Hungarian forint, while here the basic underlying trend over the coming 12 months should be moderate depreciation against the euro based on the strong reluctance by the Hungarian Central Bank (MNB) to adjust its monetary policy.

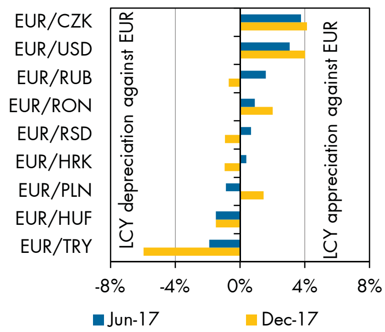
Given that we do not predict any major economic downturn over the course of 12 months, our SEE FX outlook is unspectacular. We have hold recommendations for all SEE currencies against both the EUR and the USD.

For the EE exchange rates the projected normalisation of global interest rates should, however, generate some depreciation pressure during the 12 months. A reduced carry in Russia coupled with continued weak economic developments should contribute to some RUB-weakening against both the USD and the EUR. So we could witness a decrease in the high RUB-oil correlation, something that was already visible at the end of Q1 2017. The new Belarus rouble as well as the Ukrainian hryvnia will likely continue to depreciate over the coming 12 months, leaving both with sell recommendations against the EUR and the USD.

The Turkish lira should likewise remain under pressure taking into account the global interest rate normalisation, the political developments that are difficult to judge and the expected economic difficulties. We therefore have sell recommendations for the Turkish lira against both the euro and the US dollar.

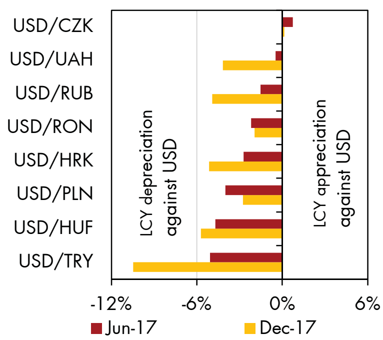
Financial analyst: Wolfgang Ernst, CEFA, RBI Vienna

Projections LCY vs EUR



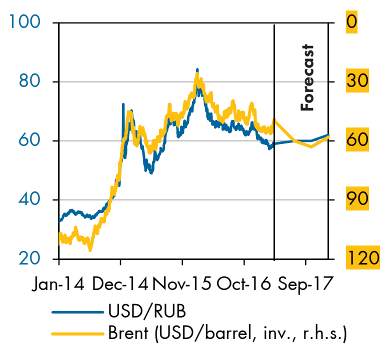
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Projections LCY vs USD



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Oil-RUB spread to close again



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Let the good times roll?[1]

- **Undoing "Trump trade" boosted Eurobond market performance in Q2**
- **"Risk-on" approach likely to remain intact, helping to sustain positive momentum on CEE market**
- **Buying Croatia after better rating prospects, Romania based on better newsflow and lower volatility**
- **Still selling Ukraine on poor politics, but upgrading Russia to a Hold**

EMBIG USD index & spreads*

	15-Mar		Spread value, bp		
	Index	Spread, bp	qoq*	5y min	5y max
LT (A-)	176	96	-20	68	423
PL (BBB+)	612	102	-10	71	310
RO (BBB-)	153	164	-13	141	528
HU (BBB-)	312	159	-14	141	658
KZ (BBB-)	198	253	-5	195	544
TR* (BB+)	703	332	-26	170	390
RU (BB+)	1094	171	-17	152	702
HR (BB)	161	200	-26	192	651
RS (BB-)	237	215	-39	199	624
UA (B-)	684	683	25	556	4281
Europe*	1135	265	-13	-274	456
Africa	977	387	-20	239	714
Asia	639	178	-24	153	309
Mid East	521	382	-42	343	602
Latam	677	431	-32	297	719
Global	**758**	**334**	**-25**	**244**	**532**
Inv.grade	**561**	**203**	**-20**	**146**	**337**
BB	**743**	**278**	**-30**	**188**	**457**
B	**1212**	**463**	**-24**	**377**	**1007**

** 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-(s) / A1(s) / A+(s)	⇔
SK	A+(s) / A2(s) / A+(s)	⇔
PL	BBB+(s) / A2(n) / A-(s)	⇔
LT	A-(s) / A3(s) / A-(s)	⇔
LV	A-(s) / A3(s) / A-(s)	⇔
SI	A(p) / Baa3(p) / A-(s)	⇔⇧
HU	BBB-(s) / Baa3(s) / BBB-(s)	⇔
SEE:		
RO	BBB-(s) / Baa3(p) / BBB-(s)	⇔
BG	BB+(s) / Baa2(s) / BBB-(s)	⇔
TR*	BB(n) / Ba1(n) / BB+(s)	⇔
HR	BB(s) / Ba2(s) / BB(s)	⇔⇧
RS	BB-(p) / Ba3(s) / BB-(s)	⇧
AL	B+(s) / B1(s) / n.r.(*)	⇔
BH	B(s) / B3(s) / n.r.(*)	⇔
EE:		
KZ	BBB-(n) / Baa3(n) / BBB(s)	⇔
RU	BB+(p) / Ba1(s) / BBB-(s)	⇔
BY	B-(s) / Caa1(s) / B-(s)	⇔
UA	B-(s) / Caa3(s) / B-(s)	⇔

** rating - S&P/Moody's/Fitch, Turkey S&P unsolicited rating; s - stable, p - positive, n - negative, n.r. - not rated*
*** the likelihood of rating change in 3 to 12 months*
⇔ no change, ⇧ upgrade possible, ⇩ downgrade possible; Source: Rating agencies, RBI/Raiffeisen RESEARCH

Market trends and ratings

The Q1 results were broadly in line with our views as the correlation between EMBIG USD and UST yields remained in the upper 0.5-1.0 range, while the EMBIG USD spread tightening was predominantly on longer-dated bonds. In a positive turnaround, **the market continued "undoing" Trump trades with investment funds reversing the outflows from EM debt seen back in November 2016**. To illustrate, the IIF EM portfolio debt flows' tracker recorded about USD 28bn of cumulative inflows for December 2016 - February 2017, which almost matched the USD 26bn outflow posted for November 2016 alone. On a global scale the CEE underperformed nearly all other peers as the "risk-on" approach favoured higher-yielding competition from Latin America and Middle East/Africa. **Our ideas for Q1 to overweight Croatia (-26bp) and Lithuania (-20bp) as well as underweighting Ukraine (+25bp) paid off.** At the same time our "tactical" Sell on Russia backfired. The relative value allocation favouring Croatia, Hungary and Serbia over Romania also performed well. In relative terms, the USD segment positively outstripped the EUR in terms of performance. Meanwhile, the CEE Eurobond average yield spread against the EU periphery (EUP) dipped another 55bp to -77bp overall owing to EUP domestic problems, the tightest level since the end of 2015. Among sovereign ratings the most important changes included the outlooks' upgrade from negative to stable on Russia (Moody's) and Croatia (Fitch and Moody's). Russia got the positive nod thanks to stronger-than-expected fiscal results amidst recovering oil prices, while Croatia's uplift came on the heels of a good mix of growth and stronger fiscal performance, enabling a "growing out of debt" strategy to be put in place. By contract, Turkey was downgraded one notch to BB+ from Fitch on the back of politics weakening the macro outlook, which was widely expected. **In the months ahead we expect the positive trend to continue in CE** as Moody's upgrade of Slovenia looks long overdue, while positive outlooks may also be possible for Slovakia and the Baltics. In SEE we will likely witness positive stories as well with Serbia's re-rating story running full steam and Croatia likely to join a similar path in future, while the total number of negative outlooks in SEE is likely to fall. Finally, EE is likely to remain a mixed bag as no rating improvements are expected, while Kazakhstan may win back its stable outlooks by the end of 2017.

Primary markets

After a lethargic market in February we witnessed CEE sovereign placements climbing up to USD 4.7bn in March, and a Q1 overall volume of USD 10bn (excluding the MENA region), which was only USD 2bn less than in Q1 2016. **Ahead we foresee some relatively constructive primary markets with more issues likely out of CEE** as the "risk on" push will probably prevail until June's Fed meeting. In Q2 we await a mega deal from Russia as the government plans to sell USD 7bn of new bonds, including USD 4bn to buy back old bonds. Lithuania and Romania are also expected to offer new bonds, and Turkey will continue its regular market taps. Meanwhile, sadly, we are receiving more signs that Hungary is likely to skip a sovereign issue this year.

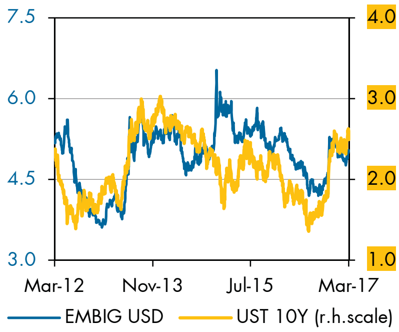
1 *"Let the Good Times Roll" is the thirty seventh studio album by B. B. King, released in 1999*

Outlook and strategy

Surprisingly or not, the CEE Eurobond markets may witness an extension of their relatively "good times" into Q2 thanks to the US Fed and a low yield environment globally. On the one hand, clearer forward guidance from the US Fed is helping to anchor market expectations better, which in turn is trimming down the "bad" volatility associated with the uncertainty factor. On the other hand, **the tightness of CEE Eurobond spreads may be partly compensated by their relatively high quality rating-wise**, as well as sound fundamentals in many cases. The technical picture also should favour CEE as sovereign Eurobond maturities for 2017 are fairly low, so "crowding-in" on the primary markets is unlikely. Moreover, in recent years the increasing popularity of CEE domestic debt has been reducing the supply of new sovereign Eurobonds which, in turn, helped to drive down the outstanding bond spreads. Going forward we prefer equal allocations between the EUR and USD segments, while the risk appetite is likely to favour higher-yielding SEE. In CE we are taking profits on Lithuania and moving it to a Hold, while in SEE we are placing a short-term Buy on Romania amidst declining volatility and a positive newsflow. Meanwhile, we continue to like Croatia in EUR on the back of positive re-rating expectations after the outlook was moved to stable. Serbia may also offer good market stability as we pray for a rating upgrade on the heels of a fundamentally sound policy, including impressive fiscal consolidation. However, tight valuations would favour a Hold recommendation on Serbia. **In EE we remove our "tactical" Sell on Russia, replacing it with a Hold on the back of larger redemptions this and next years with reduced rollover rates because of the sanction listed banks.** However, we still believe that at 170bp Russia is fairly expensive vs. the 164bp on Romania or the 200bp on Croatia. Last but not least, we maintain a Sell on Ukraine due to the sharply deteriorating politics owing to the escalation of the Donbass conflict. In Kazakhstan the news about the KKB direct bailout reduces reputational risk, while the outlook may be changed to stable only in H2, closer to the completion of the bank system clean-up.

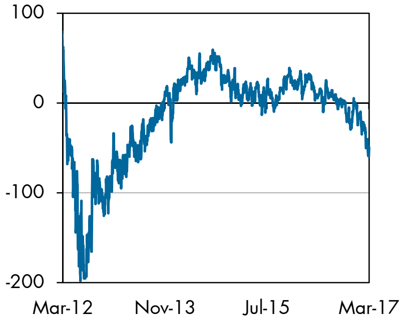
Financial analyst: Gintaras Shlizhyus, RBI Vienna

CEE EMBIG vs. UST 10y yields, %*



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

CE/SEE vs. EUP spread (bp)*



** spread in basis points between CE/SEE yield (duration adjusted) and 5y EU Peripheral (EUP) average yield, CE/SEE - Czech, Hungary, Latvia, Lithuania, Poland, Romania EUR Eurobonds, EUP - Italy + Spain average 5y yields*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Benchmark Eurobond forecast and performance

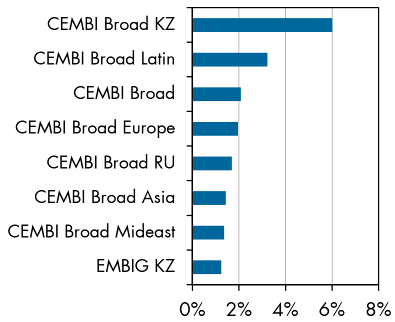
				Spread		Range			Spread	Range			Spread	Range		
Issue		Rating	Dur.	15-Mar	Jun-17	min.	max.	Perf. (%)	Sep-17	min.	max.	Perf. (%)	Dec-17	min.	max.	Perf. (%)
LT 6.625% due 22	USD	A-	4.2	**94**	**90**	84	96	0.2	**93**	87	98	-1.1	**97**	92	103	-1.7
LT 2.125% due 26	EUR	A-	8.9	**101**	**95**	90	100	0.3	**98**	92	103	-0.8	**103**	97	108	-1.3
PL 3% due 23	USD	BBB+	5.5	**110**	**105**	96	114	0.1	**109**	101	118	-1.5	**115**	106	124	-2.4
PL 0.875% due 27	EUR	BBB+	9.8	**115**	**110**	106	114	0.9	**112**	108	116	-1.5	**117**	114	121	-4.0
RO 4.375% due 23	USD	BBB-	5.6	**163**	**155**	147	163	0.3	**159**	151	167	-1.3	**167**	159	175	-2.3
RO 2.75% due 25	EUR	BBB-	7.8	**199**	**180**	175	185	1.8	**183**	177	188	0.0	**192**	187	197	-2.2
HU 5.375% due 23	USD	BBB-	5.1	**164**	**156**	150	162	0.5	**159**	153	165	-1.2	**167**	161	173	-2.1
HU 3.875% due 20	EUR	BBB-	2.8	**72**	**70**	66	78	0.2	**74**	70	81	-0.5	**79**	75	86	-1.2
BG 2.625% due 27	EUR	BB+	8.9	**204**	**200**	195	210	0.7	**205**	200	214	-1.2	**217**	212	226	-2.2
TR 3.25% due 23	USD*	BB+	5.3	**302**	**300**	277	323	0.0	**311**	289	334	-2.0	**327**	304	349	-3.3
TR 4.125% due 23	EUR*	BB+	5.3	**339**	**350**	339	371	-0.4	**361**	350	382	-2.0	**382**	372	404	-4.2
RU 4.5% due 22	USD	BB+	4.5	**141**	**150**	131	169	-0.3	**160**	140	179	-2.0	**167**	148	187	-2.8
HR 5.5% due 23	USD	BB	5.1	**225**	**205**	191	219	1.1	**212**	198	226	-0.7	**222**	209	236	-1.8
HR 3% due 25	EUR	BB	7.2	**268**	**260**	256	269	0.9	**264**	260	273	-1.1	**279**	275	288	-3.6
RS 7.25% due 21	USD	BB-	3.8	**210**	**200**	181	219	0.4	**209**	191	228	-0.5	**220**	201	239	-1.3
BY 8.95% due 18	USD	B-	0.8	**385**	**400**	353	447	-0.2	**424**	376	471	-0.6	**445**	398	492	-0.9
UA 7.75% due 27	USD	B-	6.9	**668**	**700**	678	722	-2.4	**697**	675	719	-3.9	**711**	689	733	-5.6

** 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

Expensive valuation versus positive outlook for the oil price

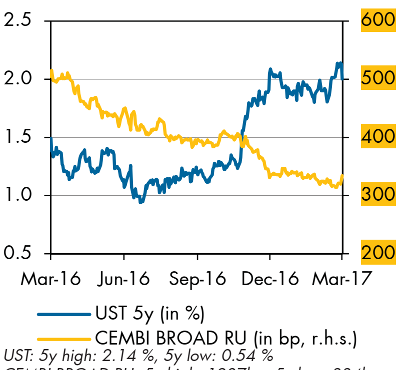
- **Steep decline in risk premiums on EM corporate bonds**
- **Russian corporate Eurobonds are now among the most expensive in their risk class**
- **Fundamentals support expensive valuation – risk of correction depends strongly on oil price developments**
- **Along with fundamentals, this segment of the bond market still enjoys good technical support**

Q1 2017 qtd returns*



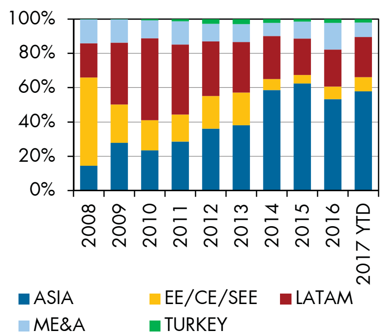
**data are for Broad Series*
5y average annual return in %: EMBIG KZ: 5.1, CEMBI Broad Mideast: 5.4, CEMBI Broad Asia: 5.7, CEMBI Broad RU: 7.2, CEMBI Broad Europe: 6.6, CEMBI Broad: 5.1, CEMBI Broad Latin: 3.9, CEMBI Broad KZ: 7.9
Source: JP Morgan, RBI/Raiffeisen RESEARCH

UST vs. CEMBI RU Index



UST: 5y high: 2.14 %, 5y low: 0.54 %
CEMBI BROAD RU: 5y high: 1207bp; 5y low: 334bp
Source: Bloomberg, JP Morgan, RBI/Raiffeisen RESEARCH

EM corporate issuance (%)*



** issuance until 15/03/2017*
Source: Bond Radar, Bloomberg, RBI/Raiffeisen RESEARCH

Risk premiums on emerging market (EM) corporate bonds (hard currency) have **fallen significantly** since the start of the year, including those for Eastern European issuers. Compared to US government bonds, Russian high yield corporate bonds now show the lowest spread levels in their history: never before has the liquidity and default risk for these instruments been ascribed as little importance as is currently the case. Since the beginning of the year, corporate bonds in the CIS region (Russia and the former Soviet republics) have posted a return of 1.8% yoy, with bonds from the Eastern European region (excluding CIS) yielding far less, at 1.5% yoy.

Within the EM corporate bond universe, we view **Russian HY corporate bonds** as being **particularly expensive**. Risk premiums on these bonds are now roughly 152 bp lower than risk-equivalent US corporate bonds, which is unprecedented. This is particularly interesting, because US HY corporate bonds have also seen a very strong spread rally and the economic indicators in the USA are sending extremely positive signals. That said, corporate default rates in the USA are still stuck at rates well above 5%, whereas the rates in the emerging markets (including Russia) are far lower.

Another reason that the development of the Russian credit markets is so astounding is that the Russian equity market (MICEX) has posted a stinging loss of around 10% since the beginning of the year. While the implied volatilities on the Russian equity market are still relatively low, the low risk premiums on the market for corporate Eurobonds cannot be explain by them.

When it comes to the question of whether Russian USD government bonds or Russian USD corporate bonds should be preferred, one should note that the **risk premium on Russian HY corporate bonds** (around 85% of Russian hard currency corporates are rated in the high yield category and only 15% have an IG rating) **are only 141 bp higher** (compared to US government bonds) **than risk premiums on Russian USD government bonds**, which is also **unprecedented** and serves as yet another indication of just how expensive this segment of the bond market has become.

However, the Russian corporate sector (especially the oil&gas industry) has certainly seen better days. Because when the price of oil fell starting from mid-2014 and in particular since the summer of 2016, Russian energy sector companies significantly ramped up their crude production (to the current level of more than 11 million barrels per day). However, one result of this has been that operating margins have fallen, despite the higher oil price. Consequently, the future development of the oil price continues to be a key factor for the development of risk premiums on the Russian corporate credit market, and both our own oil market analysts and consensus are quite positive about the outlook for oil prices. While an improvement for the Russian non-financial sector is probably yet to come, the Russian banking sector is already doing very well. According to the Russian central bank, the return on equity of Russian banks was back up to 10.3% at the end of January 2017 (compared to 2.0% in January 2016). In light of the anticipated positive economic performance, non-performing loans have probably already peaked. Moreover, core capital ratios have been improving for quite some time now.

From a **technical perspective, this bond segment is profiting from the relatively weak issuing activity on the primary market. Furthermore, sensitivity vis-à-vis changes in US government bond yields has fallen quite a bit in recent months**, and if this continues to be the case the initial rate hikes by the US Fed will hardly have any impact on EM and Eastern European corporate bonds.

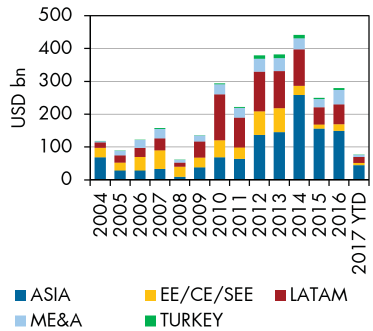
All in all, the low risk premiums in the CIS region should be supported by increases in the oil price over the short to medium term, a steady stream of positive surprises in the economic data, and consequently less volatility for RUB versus USD. Over the coming three to six months, we project that corporate credit spreads in the CEE region will show stability comparable with that of the euro area (cf. pages 22-23).

Looking at our coverage universe, we think that **NITROG 7.875% due in 2020 no longer offers an appealing valuation**. This is due to the decent rally the bond has experienced in the past year, as its price converged on the call price. To recap, the bond is callable on 21 May 2017 at 105.91, and we think it is rather likely that the bond will be called given the significantly lower funding costs now (yield: 5.8%) compared to the yield at issuance (7.875%). Moreover, the company retains good access to loan financing at cheaper terms, as proven last year by drawing a EUR 96mn bank loan. Turning to the Czech Republic, **despite the relatively tight spread of Ceske Drahy 4.125% due in 2019 we like its juicy 3.8% carry and the measured tightening** potential against its peer-groups. The company's passenger transport operations will remain loss-making in 2017, but supported by freight transport and government ownership. We maintain our buy call on the bond. Moving to Russia, Evraz recently announced its 2016 year-end results while confirming its deleveraging potential amidst the consolidating operating environment. The company's cost-cutting plan delivered a further USD 316 mn in savings, reflected in a 7% yoy increase in EBITDA despite a 12% yoy fall in revenues. However, the bottom line remained in the red despite a hefty net loss reduction from USD 719 mn in 2015 to USD 188 mn in 2016. Liquidity improved hoh, while a bulky USD 1.2 bn balance comfortably covered the short-term debt of USD 392 mn. Furthermore, the moderate capex spend of USD 375 mn (-9% yoy) was reflected in a solid free cash flow (USD 1.1 bn, for a 7% yoy drop). However, Evraz counts on a moderate 28% increase in capex in 2017-2018, mainly owing to higher maintenance capex. **We are maintaining our buy call on EVRAZ 6.75% due in 2022.**

Turning to the primary market, **CEE corporate credits saw a significant pick-up in issuing activity yoy**. The total amount of new issues stood at an equivalent of USD 6.4 bn compared to an equivalent of USD 1.7 bn in the same period last year. In terms of geographical structure, EE lead the pack with USD 5.1 bn, followed by CE with USD 1.4 bn. In a broader geographical context, the total EM corporate credit issuances stood at an equivalent of USD 77.6 bn, a 90% increase from an equivalent of USD 40.9 bn in the same period last year. The share of CEE credits on the total EM issued volume edged up from 7.4% for the whole of 2016 to 8.2% in the first three months of 2017. Taking a more detailed view of the Russian market we note that the utilisation of the Central Bank's FX repo has come down to about USD 5 bn from around USD 15 bn a year ago, and from USD 35 bn at the peak reached in May 2015. In this context we also expect brisker issuance activity this year compared to 2016 given the opening up of the Eurobond refinancing window for Russian non-sanctioned corporate issuers.

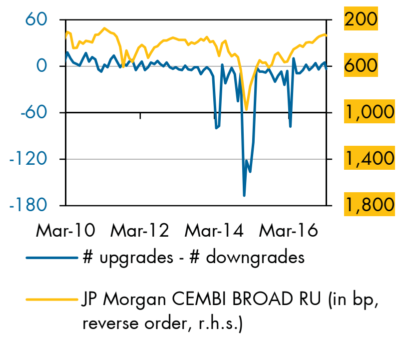
Financial analysts: Christoph Klaper, CFA; Martin Kutny, CFA; RBI Vienna

EM corporate issuance*



** issuance until 15/03/2017*
Source: Bond Radar, Bloomberg, RBI/Raiffeisen RESEARCH

Rating drift in Russia



CEMBI BROAD: 5y high: 533bp; 5y low: 296bp
Source: Bloomberg, JP Morgan, RBI/Raiffeisen RESEARCH

Selected EE Eurobonds

Issuer	ISIN	Maturity	Yield in %
Evraz	XS0618905219	27/04/2018	2.1
Gazprom	XS0708813810	23/01/2021	3.8
Sberbank	XS0799357354	28/06/2019	2.7
Nitrogenmuvek	XS0928972909	21/05/2020	6.0

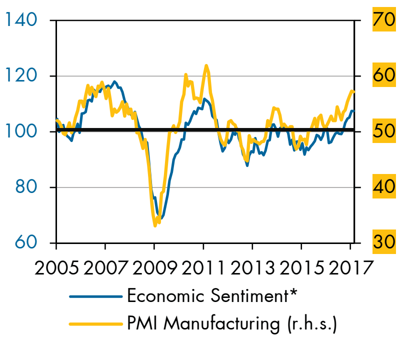
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Raiffeisen RESEARCH

Solid momentum in winter half-year

- **Acceleration of business cycle dynamics in H2 2016**
- **Favourable outlook for H1 2017**
- **Domestic demand expected to remain the major pillar**
- **Exports lacklustre so far, but more benign external environment should provide tailwind**

Leading indicators: Upward trend



*European Commission
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

The Austrian **economy ended 2016 on a positive note** with real GDP growth of 0.5% qoq in Q4, which follows an upwardly revised expansion of 0.5% qoq in Q3 (both figures refer to the trend business cycle component as released by Wifo). The economy thus accelerated in H2, as qoq growth in the first half of the year amounted to 0.3% on average. Once again, domestic demand turned out to be the main driving force. Private consumption made a major contribution to qoq GDP growth in Q4, while public consumption also supported real GDP in the final quarter of 2016. Gross fixed capital formation, on the other hand, failed to contribute to growth. The same holds true once again for net exports, given the continuously muted real export growth.

While this is essentially a view back, the **outlook for 2017 has improved in recent months as well**. The PMI for the manufacturing sector reached 57.3 in January (highest reading since March 2011) and basically stagnated in February (57.2). Thus, **sentiment is indicative of a continuation of healthy business cycle dynamics in Austria**, at least at the start of the year.

Will exports finally pick up?

*Manufacturing PMI sub component
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Given the solid economic performance in H2 2016 as well as the favourable outlook outlined above, **we increased our 2017 full-year real GDP growth forecast from 1.3% to 1.7% (2018: unchanged at 1.5%)**. Although **domestic demand is still expected to be the main pillar** of business cycle dynamics in 2017, the key reason for the upward revision of our 2017 growth forecast is based on our assumption of a **more benign external environment**, resulting in a positive net export contribution, whereas previously we assumed a slightly negative effect on GDP growth.

Private consumption in 2016 benefited from the tax reform at the beginning of that year, which lowered the income tax burden for employees, as well as from lower consumer price inflation. We expect real private consumption growth to continue in 2017, albeit at a slower pace than in 2016. On the one hand, the supportive effect of the tax reform should phase itself out, while on the other

Key economic figures and forecasts

	2015	2016	2017e	2018f
Real GDP (% yoy)	1.0	1.5	1.7	1.5
Trade balance (goods and services, EUR bn)	13.6	13.3	14.2	15.6
Current account balance (% of GDP)	1.8	2.0	2.1	2.2
General budget balance (% of GDP)	-1.0	-1.3	-1.2	-1.1
Public debt (% of GDP)	85.5	83.8	81.4	79.8
Unemployment rate (avg, %, EU definition)	5.8	6.0	6.2	6.3
Employment (% yoy)	0.9	1.5	1.3	1.2
Consumer prices (avg, % yoy)	0.8	1.0	2.0	2.1
Real wages (% yoy)	1.3	0.6	-0.2	-0.1
Unit labour costs (% yoy)	1.6	1.2	1.4	1.7

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

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

hand, somewhat higher employment growth than previously assumed and the fact that private households might lower their savings ratio once again following the increase seen in 2016 (since part of the income tax relief was not consumed) should support private consumption.

Gross fixed capital formation increased by 2.9% in 2016. Albeit not overly dynamic, it nonetheless constitutes the fastest expansion since 2011. However, this masks some rather substantial differences between the various components of gross fixed capital formation. As such, equipment investments recorded healthy growth of 6.4% as companies reduced their backlog of replacement investments. Construction investment expanded by just 1.3% on the back of non-residential construction, while residential construction investment virtually stagnated. In 2017 and 2018, we expect a minor slowdown of overall gross fixed capital formation growth due to a slower expansion of equipment investments. Residential construction activity, however, should finally pick up.

While domestic demand should remain the major pillar of business cycle dynamics in 2017 and 2018, net **exports** should make a positive contribution to GDP growth again as improving business cycle dynamics abroad likely translate into higher export volumes. The marked increase of new export orders registered since autumn 2016 points in this direction (see chart on page 20). At the moment, however, exports are still lacklustre.

In line with the general trend in the euro area, rising oil prices in yoy terms caused **HICP inflation** to increase noticeably from September. As such, consumer price inflation increased from 0.6% yoy in August to 2.4% yoy in February. For 2017 as a whole we expect inflation to average 2.0% yoy (2018: 2.1% yoy), which would constitute an acceleration following 1.0% yoy in 2016.

Financial analyst: Matthias Reith, CIIA, RBI Vienna

GDP: Value added by sector

Change (% yoy, in real terms)	2015	2016	2017e	2018f
Agriculture & forestry	0.4	4.9	1.0	1.0
Prod. of goods/mining	1.5	1.8	2.8	2.2
Energy/water supply	1.2	-4.2	1.0	1.3
Construction	-1.1	1.0	1.9	2.0
Wholesale and retail trade	0.6	2.1	2.0	1.9
Transportation	0.3	-0.5	1.3	1.4
Accom. & restaurant trade	1.0	2.3	2.2	2.0
Information and communication	1.5	0.5	0.8	0.8
Credit and insurance	0.7	3.2	0.5	0.6
Property & business services	1.1	2.0	2.4	2.6
Other economic services	0.9	1.3	1.2	1.1
Public sector	1.1	1.0	1.0	1.0
Healthcare, social services	0.7	1.3	1.4	1.5
Other services	-0.5	0.7	1.1	1.2
Gross domestic product	1.0	1.5	1.7	1.5

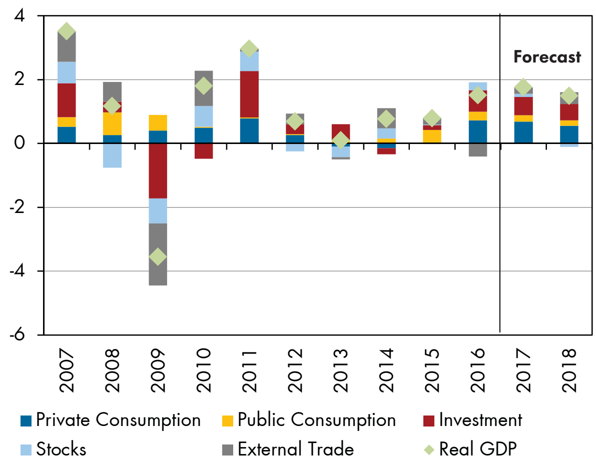
Source: Statistics Austria, RBI/Raiffeisen RESEARCH

GDP: Expenditure composition

Change (% yoy, in real terms)	2015	2016	2017e	2018f
Private consumption	0.0	1.5	1.3	1.1
Public consumption	2.1	1.3	1.0	0.9
Gross fixed capital formation	0.7	2.9	2.5	2.2
Equipment	3.6	6.4	3.9	2.8
Construction	-1.2	1.3	1.9	2.0
Exports	3.6	1.7	2.8	3.2
Imports	3.4	2.8	2.6	2.7
Gross domestic product	1.0	1.5	1.7	1.5

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

Contributions* to real GDP growth (yoy)



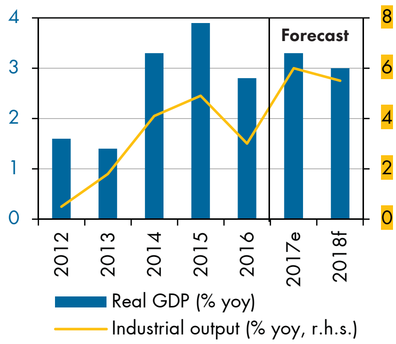
** in percentage points*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Raiffeisen RESEARCH

More positive stance on investment lifts growth outlook

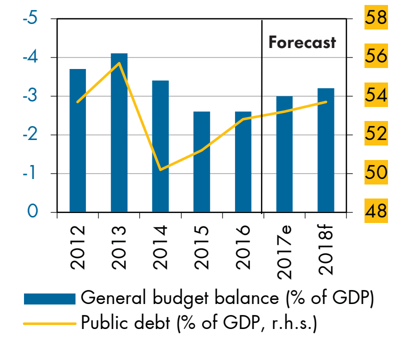
- Stronger year-end data, strong start to 2017 and better investment outlook
- Consumption to stay robust despite diminishing growth effect of 500+ programme
- Inflation increases to around 2%, but interest-rate hikes only expected in mid-2018
- Slightly more positive outlook on Polish zloty based on robust economy

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: National sources, RBI/Raiffeisen RESEARCH

Economic outlook

Economic growth amounted to 2.7% yoy in Q4 2016, significantly higher than the pessimistic estimates formulated based on data available in autumn 2016. The positive surprise stemmed from the improvement in investments, which fell by only 5.5% yoy, after shrinking as much as 7.8% in Q3. Looking into the capital account at the balance of payments for November and December, it seems that this was based on a renewed inflow of EU funds. Furthermore, Q4 brought a further acceleration of private consumption (4.2% yoy) and a positive foreign trade balance, which contributed 0.3pp to overall GDP growth.

As the inflow of EU funds has resumed, the path for a further recovery in investments is open and the outlook on overall growth has improved, which is confirmed by a stream of very good monthly data, including industrial output and retail sales. Consequently, **we have raised our GDP forecasts for both 2017 and 2018 to 3.3% and 3.0% respectively**. Such results should be achieved by improving investment activity and the still strong consumption. Although the positive effect of the 500+ programme will diminish in Q2 2017 due to the base effect, we expect consumption will stay strong with growth of 3%, as demand remains supported by a strong labour market with record-low unemployment.

The end of 2016 brought a dynamic surge in inflation. After more than 2 years of deflation in **Poland the CPI rose in January to 1.8% yoy**. However, this move mirrors the global trends of energy and food prices, while core inflation remains close to 0% yoy, allowing the MPC to maintain its neutral stance for now. Some MPC members, including Chairman A. Glapiński, claim they are comfortable with flat rates until the end of 2018, even despite negative real rates. It is most likely though that the MPC members are aware of the potential harm that this may do to the economy, including credit overheating and disincentives for productivity. Thus speculation about interest-rate hikes may intensify in the coming quar-

Key economic figures and forecasts

	2012	2013	2014	2015	2016	2017e	2018f
Nominal GDP (EUR bn)	390	395	411	430	425	450	485
Real GDP (% yoy)	1.6	1.4	3.3	3.9	2.8	3.3	3.0
Industrial output (% yoy)	0.5	1.8	4.1	4.9	3.0	6.0	5.5
Unemployment rate (avg, %)	12.8	13.5	12.3	10.5	9.0	8.3	8.2
Nominal industrial wages (% yoy)	3.4	2.9	3.7	3.5	4.1	4.4	4.5
Producer prices (avg, % yoy)	3.3	-1.3	-1.5	-2.2	-0.1	3.5	3.3
Consumer prices (avg, % yoy)	3.7	0.9	0.0	-0.9	-0.6	1.9	2.2
Consumer prices (eop, % yoy)	2.4	0.7	-1.0	-0.5	0.8	2.1	2.6
General budget balance (% of GDP)	-3.7	-4.1	-3.4	-2.6	-2.6	-3.0	-3.2
Public debt (% of GDP)	53.7	55.7	50.2	51.1	52.8	53.2	53.7
Current account balance (% of GDP)	-3.7	-1.3	-2.1	-0.6	-0.5	-0.8	-1.0
Official FX reserves (EUR bn)	83	77	83	87	108	110	112
Gross foreign debt (% of GDP)	71.8	70.6	71.4	70.3	74.4	74.8	74.2
EUR/PLN (avg)	4.18	4.20	4.19	4.18	4.36	4.33	4.23
USD/PLN (avg)	3.26	3.16	3.16	3.77	3.95	4.20	4.03

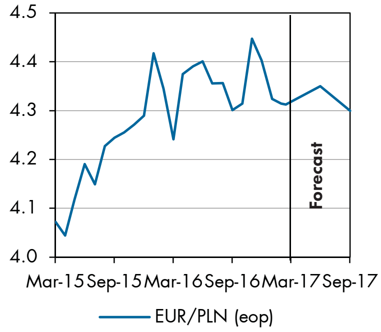
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

ters, especially if the surge in headline inflation is accompanied by wage pressures and an acceleration of core CPI. This is indeed possible in 2018 and **we expect the MPC to increase rates in summer 2018**.
Another argument for keeping rates positive is the zloty. Given the gradual tightening in the USA and gradual abandoning of QE in the eurozone in 2018, the Polish zloty might come under pressure and pose a risk of higher import prices. As investments in Poland show a high share of imported goods, a weak PLN may offset part of the positive effects of cheap credit and curb investment growth. Thus low but positive rates should be considered the best solution to support economic growth in Poland over the coming quarters.
The key risk factors for Polish growth are related to the external environment, with developments in the USA in the spotlight. On the domestic field, public finance attracts most attention. The lower retirement age of 60 and 65 years for women and men respectively comes into force in October 2017, and may cost up to PLN 10bn in 2018 depending on how many people entitled to a pension decide to retire. Adding more than PLN 20bn from the social benefit programme 500+, the government has to seek additional income. Officials currently have a strong will not to increase taxes, but instead to improve VAT collection, i.e. by combating the grey economy. Last year, however, sealing the VAT system had a rather modest result, which we estimate at a mere PLN 1bn. As nominal economic growth may be strong this year we see no serious threat to the budget, but in 2018 the situation may be difficult unless the government is more successful in collecting VAT.

Financial market outlook
After reaching 4.50 for the second time in 2016 the EUR/PLN began a strong downwards trend in December and dipped below 4.30 at the beginning of February. The move was supported by positive global sentiment, but also by local factors: S&P raised its rating outlook for Poland to stable, while Moody's and Fitch kept their ratings unchanged despite fears of a possible cut. Moreover, the chances of a forced conversion of FX mortgage loans decreased, while on the economic side both quarterly and monthly data repeatedly surprised on the upside. As a result, we decided to adjust our forecasts and **we expect the EUR/PLN will remain at its relatively low levels near 4.35**, with a possible further decrease to 4.25 at year-end. Economic data should continue to provide support to the PLN, and the diminished local risks (ratings, FX mortgages) should lead to lower volatility compared to 2016. The neutral MPC stance (contrasting with the tighter policy of the Federal Reserve) will hamper further appreciation. Flat rates in Poland in 2017 will probably keep 2-year yields anchored at lower levels too, while 10y yields may continue their upwards trend as global yields rise and Polish inflation increases. We have therefore also revised our yield forecast and expect 10-year yields will rise well above 4.0%, despite recently retreating below this level.

Financial analyst: Paweł Radwański, Raiffeisen Polbank, Warsaw

Exchange rate development



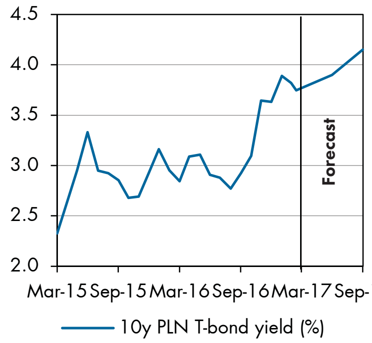
EUR/PLN: 5y high 4.51, 5y low 3.99
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

	15-Mar[1]	Jun-17	Sep-17	Dec-17	Mar-18
EUR/PLN	4.31	4.35	4.30	4.25	4.25
Cons.		*4.35*	*4.33*	*4.30*	*4.24*
USD/PLN	4.06	4.22	4.22	4.17	4.05
Cons.		*4.19*	*4.15*	*4.10*	*4.03*

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

PLN yield development (%)



10y PLN T-bond yield: 5y high 5.6, 5y low 2
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts (%)

	15-Mar[1]	Jun-17	Sep-17	Dec-17	Mar-18
Key rate	1.50	1.50	1.50	1.50	1.50
Consensus		*1.50*	*1.50*	*1.55*	*1.65*
3 month[2]	1.73	1.73	1.73	1.73	1.73
Consensus		*1.73*	*1.76*	*1.81*	*1.91*

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

Yield forecasts (%)

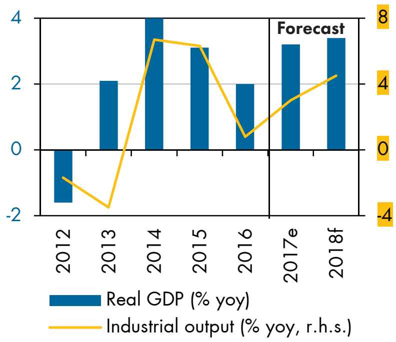
	15-Mar[1]	Jun-17	Sep-17	Dec-17	Mar-18
2y T-bond[2]	2.16	2.3	2.4	2.4	2.5
Consensus		*2.2*	*2.2*	*2.3*	*2.4*
10y T-bond[2]	3.75	3.9	4.2	4.3	4.4
Consensus		*3.7*	*3.7*	*3.8*	*3.9*

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

Growth picking up

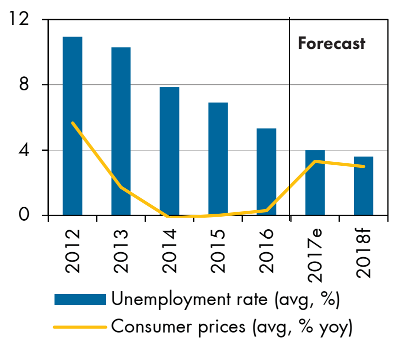
- Fiscal stimulus and more EU funds deliver higher GDP growth
- Inflation returns – faster wage increase keeps it high
- No worries over internal and external balances yet
- Stable currency and low interest rate environment expected to persist

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Inflation and unemployment



Source: National sources, RBI/Raiffeisen RESEARCH

Economic outlook

After the weak performance in 2016 with only GDP growth of 2%, the coming years are expected to deliver more **robust growth rates above 3%**. There are two – partially linked – reasons behind this improvement: fiscal stimulus and more EU funds. Parliamentary elections are scheduled for Q2 2018, and local elections will take place in 2019. The political rationale is to increase public investment in the pre-election period. This will largely be done by utilising available EU funds. There are large sums waiting to be spent: Hungary aims to absorb the bulk of the EU funds allotted to the country for the 2014-2020 budgetary cycle in a concentrated manner over the next 2-3 years. This would equal around 5% of annual GDP from Brussels, and help economic growth. So we expect a **massive turnaround of public investment activity** in the right direction.

Fiscal stimulus is also apparent in the form of public-sector wage increases: as part of a long-term wage programme both health workers and teachers are to receive double-digit salary increases in 2017, similarly to the employees of state-owned companies. Private sector wages are also rising rapidly, partly due to the 15% minimum wage increase and partly because of the tight labour market conditions. The unemployment rate dropped below 4.5% in early 2017, and it is expected to decrease further: this is not only a symptom of rising labour demand but also of structural problems (skills and location mismatch) and policy measures (i.e. public works scheme employs 5% of labour force). At any rate, strong wage dynamics lead to a strong increase in household consumption, which is a major pillar of economic growth. Another consequence of the accelerating wage growth is the return of inflation. While inflation was around zero in the previous 3 years, this is now history. Imported inflation is no longer negative, and wage inflation is finally appearing in consumer prices. **CPI reached a 4-year record in February with a figure of 2.9% yoy.** We do not believe the inflation jump is tem-

Key economic figures and forecasts

	2012	2013	2014	2015	2016	2017e	2018f
Nominal GDP (EUR bn)	99.1	101.5	105.0	109.7	112.4	119.5	125.2
Real GDP (% yoy)	-1.6	2.1	4.0	3.1	2.0	3.2	3.4
Industrial output (% yoy)	-1.7	-3.5	6.7	6.3	0.8	3.0	4.5
Unemployment rate (avg, %)	10.9	10.3	7.9	6.9	5.3	4.0	3.6
Nominal industrial wages (% yoy)	-0.7	4.4	4.0	5.3	7.5	12.0	10.3
Producer prices (avg, % yoy)	4.3	0.7	-0.4	-0.7	-1.7	3.4	3.1
Consumer prices (avg, % yoy)	5.7	1.7	-0.2	0.0	0.3	3.3	3.0
Consumer prices (eop, % yoy)	5.0	0.4	-0.9	0.9	1.1	3.6	3.1
General budget balance (% of GDP)	-2.1	-2.3	-2.5	-2.0	-2.0	-2.5	-3.0
Public debt (% of GDP)	78.3	76.8	76.2	75.2	73.9	73.2	72.4
Current account balance (% of GDP)	1.9	4.1	3.9	4.3	3.5	3.2	3.0
Official FX reserves (EUR bn)	33.9	33.8	34.7	30.5	24.5	23.6	21.2
Gross foreign debt (% of GDP)	128.9	118.1	114.0	106.2	98.3	89.1	83.5
EUR/HUF (avg)	289.2	296.8	308.7	309.9	311.5	311.8	316.9
USD/HUF (avg)	225.1	223.6	232.8	279.4	281.6	302.7	301.8

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

porary: we expect elevated levels for the whole year, and **forecast 3.3% average inflation for 2017** compared to the inflation target of 3%.

Financial market outlook

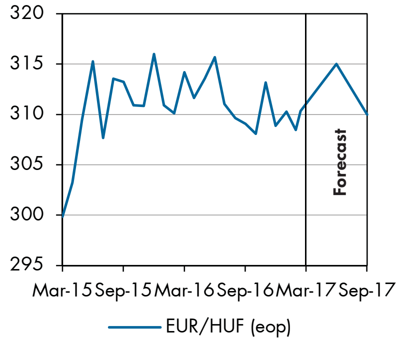
Given the loosening fiscal stance and increasing domestic demand, we expect a minor deterioration of the public budget balance and the external balances. There is nothing to worry about yet though as the budget deficit will remain well below the 3% threshold in terms of GDP while the current account and trade balance will still hold large surpluses. The public debt to GDP ratio is expected to continue falling gradually, and debt management still focuses on reducing vulnerabilities i.e. reducing foreigners' roles in debt financing and reducing the FX share of public debt.

Under these circumstances, the National Bank of Hungary (NBH) **is keeping interest rates depressed**. Moreover, NBH cut the cap on the 3-month deposit facility further, its main sterilisation instrument (from HUF 900bn at the end of Q4 2016 to HUF 750bn at the end of Q1 2017) and continued FX swaps providing HUF liquidity (increasing surplus liquidity on the market to its highest level since the introduction of the cap, to HUF 450bn). The rationale is to lower interbank rates without cutting the base rate (0.9%). Consequently, interbank rates continued to fall in the first months of the year (3-month BUBOR down from 0.37% to 0.23%). Nevertheless, domestic FRAs are already pricing in some stabilisation at these levels for the remainder of the year, a view we agree with. We keep our call that the 3-month BUBOR will stay around 0.3% in the first half of the year, and will start increasing gradually from the second half of the year. Meanwhile, LCY government bonds experienced some selling pressure in relation to the strengthening inflation expectations both domestically and externally (escalation of EA and US curve steepening). Reflationary pricing caused an almost 0.5pp jump in the January-February period for the 10-year yield from levels below 3.2% but since then it has dropped off a bit. Looking ahead we see a further steepening of the curve, with the 10-year maturity trending towards higher levels of around 3.8% by end-June.

Our view on the exchange rate remains unchanged. As long as the NBH maintains its measures providing liquidity, which offset the high external surplus, **both upside and downside risks will be balanced** throughout the year. We forecast the EUR/HUF will trend sideways in the short term in its previous trading range of 310-315, before possibly trending moderately higher in the course of 2018, towards EUR/HUF 320. Our argument for this slight depreciation trend is unchanged: we expect the NBH will wait longer than other central banks before raising its interest rates.

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

Exchange rate development



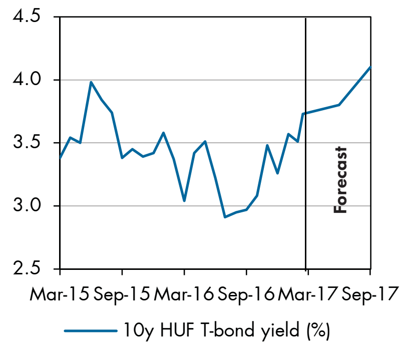
EUR/HUF: 5y high 321.02, 5y low 275.45
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

	15-Mar[1]	Jun-17	Sep-17	Dec-17	Mar-18
EUR/HUF	310.32	315	310	315	315
Cons.		*310*	*310*	*310*	*310*
USD/HUF	291.91	306	304	309	300
Cons.		*304*	*300*	*295*	*296*

[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, RBI/Raiffeisen RESEARCH

Interest rate forecasts (%)

	15-Mar[1]	Jun-17	Sep-17	Dec-17	Mar-18
Key rate	0.90	0.90	0.90	0.90	0.90
Consensus		*0.90*	*0.90*	*0.90*	*0.95*
3 month[2]	0.23	0.30	0.40	0.50	0.60
Consensus		*0.37*	*0.37*	*0.39*	*0.52*

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

Yield forecasts (%)

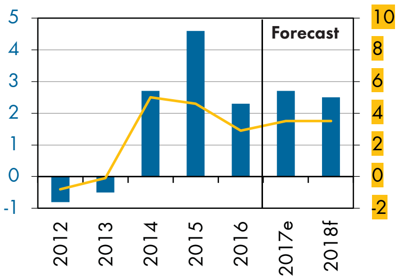
	15-Mar[1]	Jun-17	Sep-17	Dec-17	Mar-18
3y T-bond[2]	1.66	1.5	1.6	1.7	1.8
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*
10y T-bond[2]	3.73	3.8	4.1	4.3	4.4
Consensus		*3.48*	*3.48*	*3.61*	*3.62*

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

CZKExit draws closer

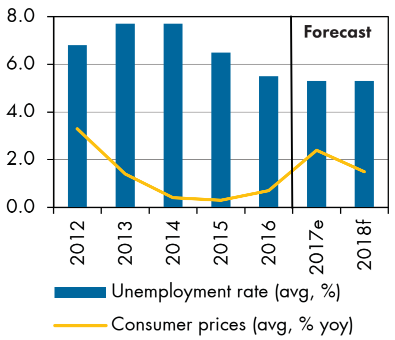
- **Faster inflation spurs speculations on early CZKExit**
- **Unemployment below its natural level**
- **End of FX commitment very probable in Q2**
- **Expect high CZK volatility and rise of bond yields**

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Inflation and unemployment



Source: National sources, RBI/Raiffeisen RESEARCH

Economic outlook

In 2016 the Czech economy decelerated to 2.3% yoy after exceptionally strong growth in the previous year. Weaker economic growth was a result of lower investment activity, especially from the government, as a new programme period for EU funds had a rather slow start. Household consumption and strong foreign trade were the main economic drivers.

In Q1 2017, Czech GDP should rise above 2.5% yoy, from 1.9% in Q4 2016. The Czech economy is already operating slightly above its potential. The positive output gap should prevail in the forthcoming quarters too. Inflationary pressures are intensifying inside the economy and core inflation is starting to increase. However, core inflation still remains below overall inflation and below 2.0%. Overall inflation reached 2.5% yoy in February and was driven mostly by seasonal and volatile components like food and energy prices. For past few months, inflation has grown faster than the central bank expected. In the second quarter, inflation will likely accelerate further towards the upper edge of the CNB's inflation tolerance band (3%). In **H2 2017 inflation should return towards 2.0% from its higher level due to the base effect.** Wage growth should quicken as there is still a problem with a lack of qualified workers on the Czech labour market. Furthermore, since January 2017 the minimum wage has increased by 11% yoy to around EUR 400. Thus the average nominal wage will probably increase by 4.5% yoy this year (fastest growth since 2008). Unemployment is not only the lowest among EU countries, but it is also already below its natural level. As the labour market is already at its capacity limits, any further drop in unemployment will be slower than in previous years. Foreign trade reached a record-high surplus last year and also had a solid surplus in January. The performance of industrial production largely depends on the success of car production. Last year the automotive sector broke production records, and the initial figures indicate another successful start to this year. The two largest car producers operating on the

Key economic figures and forecasts

	2012	2013	2014	2015	2016	2017e	2018f
Nominal GDP (EUR bn)	160.8	156.9	156.6	167.0	174.2	185.4	200.4
Real GDP (% yoy)	-0.8	-0.5	2.7	4.6	2.3	2.7	2.5
Industrial output (% yoy)	-0.8	-0.1	5.0	4.6	2.9	3.5	3.5
Unemployment rate (avg, %)	6.8	7.7	7.7	6.5	5.5	5.3	5.3
Nominal industrial wages (% yoy)	3.2	1.0	2.9	3.0	4.1	4.0	3.9
Producer prices (avg, % yoy)	2.1	0.8	-0.8	-3.2	-3.3	2.4	2.1
Consumer prices (avg, % yoy)	3.3	1.4	0.4	0.3	0.7	2.4	1.5
Consumer prices (eop, % yoy)	2.4	1.4	0.1	0.1	2.0	1.8	1.8
General budget balance (% of GDP)	-3.9	-1.3	-1.9	-0.6	0.0	-0.2	0.0
Public debt (% of GDP)	44.5	44.9	42.2	40.3	37.9	36.8	35.8
Current account balance (% of GDP)	-1.6	-0.5	0.2	0.2	1.1	1.1	1.2
Official FX reserves (EUR bn)	34.0	40.8	45.0	59.4	81.3	121.1	120.0
Gross foreign debt (% of GDP)	60.2	63.5	67.8	69.4	73.2	76.2	74.0
EUR/CZK (avg)	25.1	26.0	27.5	27.3	27.0	26.5	25.5
USD/CZK (avg)	19.6	19.6	20.8	24.6	24.4	25.7	24.3

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Czech market have already extended their production lines. Therefore we expect **industrial production will accelerate towards 3.5% yoy from 2.9% last year.** Overall, the Czech economy continues to enjoy robust growth, driven by stable household consumption, strong industry and a favourable external balance. So we expect **GDP will advance towards 2.7% yoy from 2.3%** last year, despite the moderate CZK strengthening expected during H2 2017.

Financial analysts: Daniela Milučka, Raiffeisenbank a.s., Prague

Financial market outlook

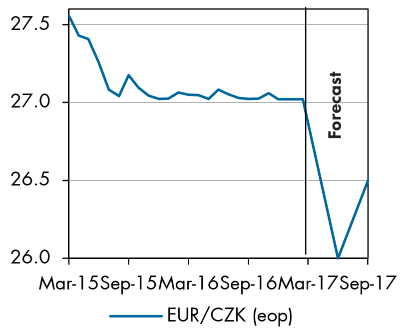
At the beginning of the year, market speculation intensified on an earlier CNB exit from its 4-year old EUR/CZK 27.0 FX commitment. This spurred speculation was driven mainly by faster-than-expected inflation at home but also abroad. Although we correctly anticipated CPI inflation above the 2% CNB target as early as the beginning of 2017, in reality the CPI was even slightly higher due to food prices. Although the prices of food are highly volatile and currently influenced by poor weather conditions, the Czech National Bank continues to prepare the market verbally for an exit close to mid-2017. In fact, inflation is growing faster than the CNB expected and the build-up of FX reserves at the beginning of the year brought its share relative to GDP up to 60%, from around 46% at the end of 2016. The CNB cannot be calm in the face of such high speculation. There is a considerable risk that inflation could undershoot the target in the second half of 2017 if the CZK appreciates and prices of food decline. However, that risk aside, it does not seem that the Czech economy needs an undervalued domestic currency anymore. The CNB said it would not **scrap the FX commitment before Q2 2017, so realistically, the earliest possible date for the exit is 1 April**. After 31 March, we cannot be sure what will happen to the EUR/CZK the following day: in the words of the CNB Governor, "anything is possible". The CNB keeps saying that the most likely date for an exit is mid-2017. We think the probability of an end to the FX commitment increased in Q2. The CNB could wait for new data and at least a glimpse of the new forecast to be finished by May.

When the CNB FX commitment for the EUR/CZK is released, **we initially expect increased volatility**. In the short-term this could reach 10%. A partial closing of long CZK positions will put a stop to CZK appreciation, and for a brief period might push the EUR/CZK up above 27.0. After a volatile period, the EUR/CZK should return to fundamentally more justified levels around EUR/CZK 26.0.

The negative EUR/CZK basis swaps and in general the expectation for a stronger CZK fed into the demand for CZK-denominated government bonds. The share of foreign ownership in outstanding CZK-denominated bonds increased to almost 40%, up from 20% a year ago. After the exit, some of these positions will be closed. Consequently, **government bond yields will probably increase** and the spread over German Bunds will rise to economically reasonable levels.

Financial analysts: Michal Brožka, Raiffeisenbank a.s., Prague

Exchange rate development



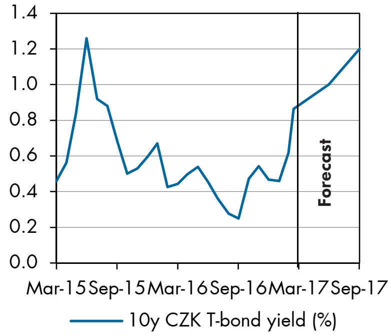
EUR/CZK: 5y high 28.35, 5y low 24.36
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

	15-Mar[1]	Jun-17	Sep-17	Dec-17	Mar-18
EUR/CZK	27.02	26.00	26.50	25.90	25.60
Cons.		*26.70*	*26.30*	*26.20*	*25.95*
USD/CZK	25.42	25.24	25.98	25.39	24.38
Cons.		*25.50*	*25.00*	*24.41*	*24.20*

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

CZK yield development (%)



10y CZK T-bond yield: 5y high 3.68, 5y low 0.24
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts (%)

	15-Mar[1]	Jun-17	Sep-17	Dec-17	Mar-18
Key rate	0.05	0.05	0.05	0.05	0.05
Consensus		*0.05*	*0.05*	*0.10*	*0.10*
3 month[2]	0.28	0.30	0.30	0.35	0.40
Consensus		*0.29*	*0.31*	*0.37*	*0.44*

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

Yield forecasts (%)

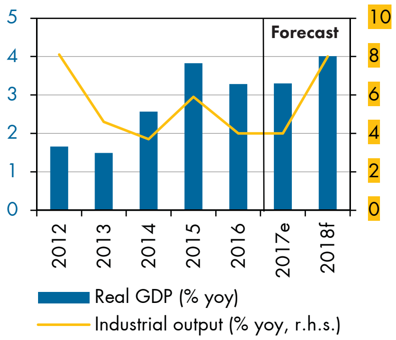
	15-Mar[1]	Jun-17	Sep-17	Dec-17	Mar-18
2y T-bond	-0.64	0.1	0.1	0.1	0.2
Consensus		*-0.2*	*0.0*	*0.2*	*0.3*
10y T-bond	0.87	1.0	1.2	1.3	1.4
Consensus		*0.7*	*0.8*	*1.0*	*1.2*

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

Solid growth for years ahead

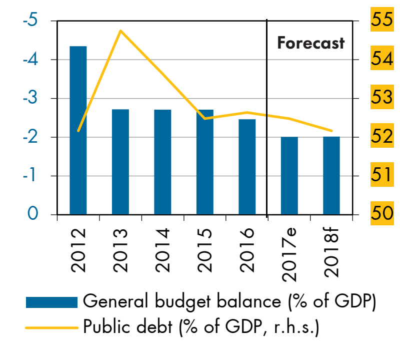
- **Well-balanced growth in 2017**
- **Employment reaching new historic high**
- **Rising inflation to trim nominal wage growth**
- **Risk premium contained due to scarcity of Slovak bonds available for ECB QE**

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: National sources, RBI/Raiffeisen RESEARCH

Economic outlook

Annual GDP growth slowed down to 3.3% yoy in 2016 from 3.8% yoy in 2015. Growth has mainly stemmed from foreign demand, which rose by 4.8% yoy. On the other hand, domestic demand increased only by 0.9%, mainly due to a decrease in capital formation, which slumped by -4.2%. The drop in the investment growth rate is the result of lower EU fund inflows into the public sector, which triggered a decrease in general government investment by 45%. Moreover, the expectation of faster developments in private sector investment was not fulfilled. Rising by 2.9% yoy this was not enough to improve the investment-to-GDP ratio, which fell to a new post-crisis low. We should see some positive developments in 2017 as Jaguar Land Rover and a few infrastructure projects are to be rolled out. Nevertheless, the volume of new investment should only reach 2015 levels. The mixture of GDP growth for this year should be well balanced with household consumption up by 3% yoy and government consumption growth up by 2% yoy. We also expect to see persistently solid external demand as the euro area economy is sending very good signals. Our **forecast for 2017 is therefore 3.3% yoy** with gradually improving growth towards the end of the year. GDP growth should even **accelerate in 2018 to 4% yoy**.

Employment growth by 2.8% yoy in 2016 was the fastest since 2008. We expect it to slow down to 1.8% yoy in 2017. The rate of unemployment decreased by 1.9pp yoy to 9.1% in Q4 2016, though this is still above the pre-crisis level. However, the employment rate is already at a historic high, and it is becoming increasingly difficult for companies to find new skilled employees. We expect it to continue falling due to the **healthy economy and solid job vacancies**, along with new private investments, which are set to roll out in 2017 and 2018 (Jaguar Land Rover, Amazon). Historically, unemployment was at its lowest in Slovakia in Q4 2008, standing at 8.7%, a threshold we expect to be broken in 2017.

Key economic figures and forecasts*

	2012	2013	2014	2015	2016	2017e	2018f
Nominal GDP (EUR bn)	72.7	74.2	75.9	78.7	81.0	84.2	89.3
Real GDP (% yoy)	1.7	1.5	2.6	3.8	3.3	3.3	4.0
Industrial output (% yoy)	8.1	4.6	3.7	5.9	4.0	4.0	8.0
Unemployment rate (avg, %)	14.0	14.2	13.2	11.5	9.7	8.3	6.9
Nominal industrial wages (% yoy)	0.0	3.6	5.4	3.2	3.4	4.0	4.5
Producer prices (avg, % yoy)	3.9	-0.1	-3.5	-4.2	-4.3	0.0	2.0
Consumer prices (avg, % yoy)	3.6	1.4	-0.1	-0.3	-0.5	1.1	2.0
Consumer prices (eop, % yoy)	3.2	0.4	-0.1	-0.5	0.2	1.4	2.2
General budget balance (% of GDP)	-4.3	-2.7	-2.7	-2.7	-2.5	-2.0	-2.0
Public debt (% of GDP)	52.2	54.7	53.6	52.5	52.6	52.5	52.2
Current account balance (% of GDP)	0.9	1.8	1.2	0.2	-0.6	0.5	1.4
Gross foreign debt (% of GDP)	75.5	81.5	89.2	85.4	88.8	87.4	84.8

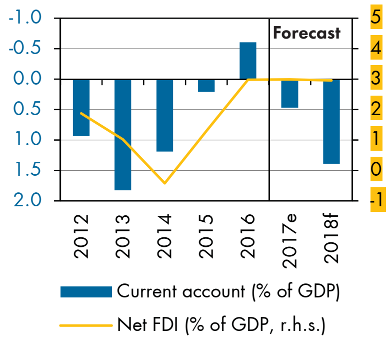
* *euro area entry on 1 January 2009*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Nominal wage growth in 2016 reached 3.3% yoy, up from 2.9% in 2015. Wage growth in medium and large companies (with 20 and more employees) shows an even higher dynamic of 4.5% yoy. Looking at the different sectors of the economy, the data exhibits an inverse relationship between employment and wage growth, suggesting that new entrants to the workforce are decreasing the average wage in the economy. Consequently, wage growth among existing employees is higher than the headline number. Due to tensions on the labour market, we are banking on even higher nominal wage growth (4% yoy) in 2017. However, real wages will be slightly dampened by a revival of inflation. Consumer price inflation has confirmed its return above zero as it posted 0.7% yoy growth in January. This is the highest figure since September 2013. The increase in inflation was mainly caused by food, healthcare and transportation, while energy prices decreased. **We expect inflation to be safely above 1% in 2017** on average, possibly even exceeding 1.5% in the autumn.

In terms of public finance, the European Commission (EC) expects the public deficit to come in at 2.2% of GDP in 2016 and 1.4% of GDP in 2017. However, we are a bit more pessimistic with regard to the government's discipline and willingness to consolidate public finances. We therefore forecast a deficit of 2.0% of GDP in 2017. The recent tax revenue forecast (February 2017) shows improved tax and social contribution revenue in 2017 by EUR 176mn. But it is very premature to expect a lower deficit in 2017 due to better revenues. The debt-to-GDP ratio should stay around 52-53% of GDP in the next couple of years.

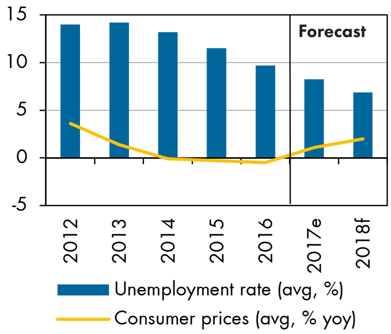
Financial analysts: Boris Fojtík, Tibor Lorincz, Juraj Valachy, Tatra banka, a.s., Bratislava

Current account and FDI inflows



Source: National sources, RBI/Raiffeisen RESEARCH

Inflation and employment



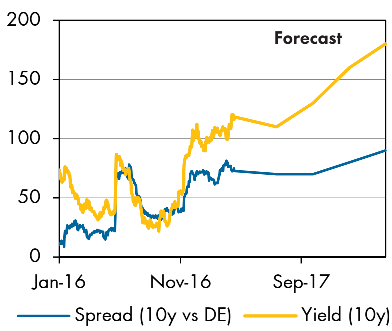
Source: National sources, RBI/Raiffeisen RESEARCH

Bond market

The Slovak government proved to be rather resilient during the volatile first quarter as spread increases were relatively contained compared to most other euro sovereigns. Currently sitting at 70bp the 10-year risk premium over Germany looks fairly priced. However, it is still strongly dependent on ECB purchases as the Slovak government bond market is heavily favoured by the ECB's QE design, with Slovakia's share in the monthly purchase target being more than twice Slovakia's share in the euro government bond market. As a consequence, the ECB and the Slovak National Bank already hold 25% of all Slovak government bonds, despite persistently undershooting the monthly buying target of EUR 700mn. Taking a short-term view (1-4 months) we maintain our "hold" recommendation for the Slovak spread (10y vs DE). Given the shortage of QE-eligible Slovak bonds we see **limited scope for a major spread increase**. In the longer run, however, with the impact of QE fading, we should see some spread widening. Nevertheless, we expect Slovak government bonds will remain within the **high-yielding core segment** of the euro government bond market.

Financial analyst: Patrick Krizan, RBI Vienna

Yield and spread*

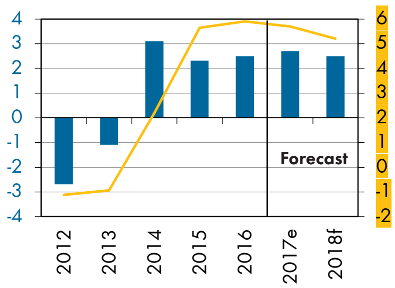


**in basis points*
Yield (10y): 5y high: 484; 5y low: 22
Spread: 5y high: 295; 5y low: 8
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Economic upswing continues

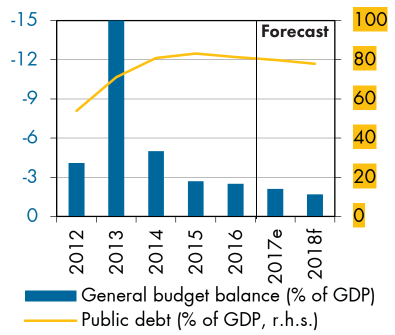
- **business cycle dynamics accelerated again in the fourth quarter**
- **Leading indicators continue to signal favourable conditions**
- **Domestic demand profiting from developments on the labour market, investments to contribute to growth again in 2017**
- **Risk premium still muted, due to ECB purchases of government bonds**

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: National sources, RBI/Raiffeisen RESEARCH

Economic growth continued to accelerate at the end of the year, as real GDP expanded at a rate of 1.2% qoq in the fourth quarter of 2016, after 0.7% qoq in the second quarter and 1.0% qoq in the third quarter. For 2016 as a whole, real GDP expanded at a rate of 2.5% yoy (versus 2.3% yoy in 2015). Economic activity was mainly borne by private consumption and foreign trade, whereas (construction) investment had hampered growth in the previous year. The **outlook for the economy going forward remains positive** according to sentiment indicators. Consequently, for 2017 we expect growth of 2.7% yoy, which will be slightly better than in the previous year (2018e: 2.5%). There are tendentially upside risks to these growth projections. Domestic demand should play an even stronger role as the main impetus behind economic growth, as private consumption is expected to continue rising dynamically. Higher inflation, which will erode gains in real income, will be countered by the improving situation on the labour market. Construction investment is also expected to support growth again. While export growth is expected to remain dynamic given the good economic environment abroad, the anticipated rise in domestic economic activity will likely lead to a stronger increase in imports than last year, which means that net exports will make a smaller contribution to growth. **Inflation** (HICP) should come in at around 1.5% yoy in 2017, up from -0.2% yoy in 2016. As with most euro-area countries, **risk premiums** on Slovenian government bonds (10y versus Germany) clearly rose in the first quarter. Although the Slovenian premium of around 100bp is significantly lower than the levels for Italy or Spain, due to their statistical behaviour (especially in the case of volatility shocks) we still tend to classify Slovenian government bonds more in the peripheral country segment. In the months ahead, we see little potential for any further major increase in the Slovenian risk premium, as the supply situation should remain very tense due to the purchases of bonds by the ECB.

Financial analysts: Matthias Reith, CIIA; Patrick Krizan, RBI Vienna

Key economic figures and forecasts*

	2012	2013	2014	2015	2016	2017e	2018f
Nominal GDP (EUR bn)	36.0	35.9	37.3	38.6	39.8	41.3	43.1
Real GDP (% yoy)	-2.7	-1.1	3.1	2.3	2.5	2.7	2.5
Industrial output (% yoy)	-1.1	-0.9	2.2	5.6	5.9	5.7	5.2
Unemployment rate (avg, %)	8.9	10.2	9.7	9.0	7.9	7.3	6.8
Nominal industrial wages (% yoy)	2.6	2.8	3.3	2.1	2.1	2.7	3.2
Producer prices (avg, % yoy)	1.0	0.3	-1.1	-0.5	-1.4	1.1	1.3
Consumer prices (avg, % yoy)	2.8	1.9	0.4	-0.8	-0.2	1.5	1.9
Consumer prices (eop, % yoy)	3.1	0.9	-0.1	-0.6	0.6	1.9	1.8
General budget balance (% of GDP)	-4.1	-15.0	-5.0	-2.7	-2.5	-2.1	-1.7
Public debt (% of GDP)	53.9	71.0	80.9	83.1	81.3	79.9	77.9
Current account balance (% of GDP)	2.6	4.8	6.2	5.2	6.8	6.6	6.2
Gross foreign debt (% of GDP)	119.1	116.6	124.6	116.6	108.8	104.1	103.0

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

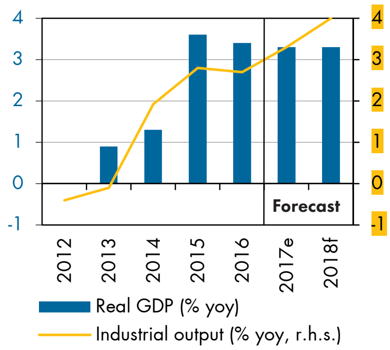
GDP growth proves sustainable

- Net exports drive growth once again
- Household consumption gaining momentum
- Precarious political environment
- EU funds pending until mid-2017

Real GDP once again grew beyond expectations, up to 3.4% yoy in 2016, beating the 2015 growth model (3.6% yoy) and mirroring the upwards trend driving CEE economies. Strong external demand stimulated by the weak euro and the recovery in the euro area and CEE was once again the core GDP driver. Moreover, low oil prices suppressed imports, so net exports remained the strongest contributor to growth at 1.8pp. As part of the weaker domestic demand, household consumption added 1.5pp to the growth in 2016, whereas gross fixed capital formation restrained the rise by -0.8pp. Based on the scenario that the recovery in the euro area and CEE is going to continue in 2017, and encouraged by the ECB's monetary policy and moderate increase in oil prices, **real GDP growth of 3.3% yoy is expected in 2017**. The main drivers will once again be net exports of goods and services and household consumption, gaining momentum in response to the low interest rates and growing wages. At the same time, investments, particularly foreign and public, will be rather sluggish due to the election-related uncertainty and the low administrative capacity for EU funds absorption as a result, lasting at least until the end of H1 2017. Hence growth in H1 is anticipated to be weaker at 3.2% yoy. Moreover, the record demand for tourism services in Bulgaria (tourists avoiding Turkey's political tensions) is likely to be reproduced in Q3 2017, leading to somewhat stronger growth in H2 at 3.4% yoy. Additional **growth boosters for 2017 will be the rebound in inflation** (anticipated at 1.3% on average) and lending. Growth constraints, besides the precarious domestic political environment, include external risks, which appear to be even more unpredictable and far-reaching (military conflicts, refugees, terrorism, etc.), as well as the limitations in the market for skilled labour. Reflecting the GDP dynamics, the unemployment rate will continue to decrease marginally to a level of 6.4% on average, accompanied by growth in wages of around 7.0% yoy for 2017.

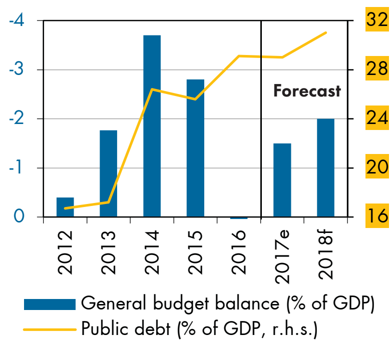
Financial analyst: Emil S. Kalchev, Raiffeisenbank (Bulgaria) EAD, Sofia

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: National sources, RBI/Raiffeisen RESEARCH

Key economic figures and forecasts

	2012	2013	2014	2015	2016	2017e	2018f
Nominal GDP (EUR bn)	41.9	42.0	42.8	45.3	47.4	49.8	52.5
Real GDP (% yoy)	0.0	0.9	1.3	3.6	3.4	3.3	3.3
Industrial output (% yoy)	-0.4	-0.1	1.9	2.8	2.7	3.3	4.0
Unemployment rate (avg, %)	12.3	12.9	11.4	9.2	7.6	6.4	6.0
Nominal industrial wages (% yoy)	13.0	3.0	0.9	9.3	8.3	7.6	6.7
Producer prices (avg, % yoy)	4.2	-1.4	-1.2	-1.9	-3.1	1.0	1.6
Consumer prices (avg, % yoy)	3.0	0.9	-1.4	-0.1	-0.8	1.3	2.0
Consumer prices (eop, % yoy)	4.2	-1.6	-0.9	-0.4	0.1	1.8	3.0
General budget balance (% of GDP)	-0.4	-1.8	-3.7	-2.8	1.6	-1.5	-2.0
Public debt (% of GDP)	16.7	17.2	26.4	25.6	29.1	29.0	31.0
Current account balance (% of GDP)	-0.2	1.9	0.1	0.4	3.8	3.4	1.0
Official FX reserves (EUR bn)	15.6	14.4	16.6	20.4	23.9	23.0	23.4
Gross foreign debt (% of GDP)	89.9	87.9	92.0	75.3	73.3	69.3	68.6
EUR/BGN (avg)	1.96	1.96	1.96	1.96	1.96	1.96	1.96
USD/BGN (avg)	1.52	1.47	1.47	1.76	1.77	1.90	1.86

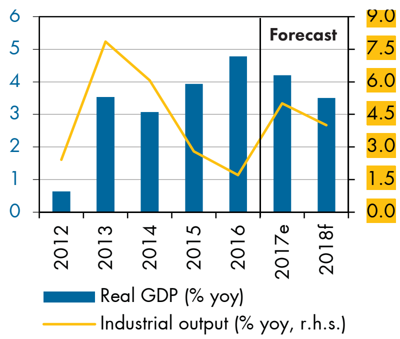
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Raiffeisen RESEARCH

Additional fiscal stimulus to preserve growth momentum

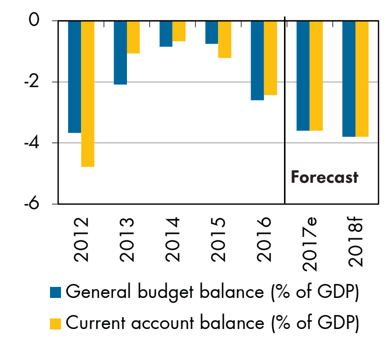
- **Additional fiscal stimulus boosts disposable income, benefiting consumption and GDP growth**
- **Significant upside pressures on public budget deficit, 3% of GDP target likely to be exceeded**
- **Annual inflation rate finally positive, and to continue on a sustained upwards trend**
- **Key rate flat at 1.75% in 2017, use of alternative instruments to result in tighter monetary policy stance**

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Budget and current account balance



Source: National sources, RBI/Raiffeisen RESEARCH

Economic outlook

While GDP dynamics in Q4 beat expectations (1.3% qoq and 4.7% yoy), the dynamics of the components on the demand side were pretty disappointing. Contrary to our expectations, private consumption was flat in Q4 on a quarterly basis. Moreover, gross fixed investments declined by 1.7% qoq. Surprisingly, the increase in inventories supported the GDP advance in Q4 to a very large extent. **Real GDP increased by 4.8% in 2016 overall,** with private consumption (7.4%) the main growth engine. Gross fixed capital formation was flat in 2016 as the gains recorded in the first two quarters were completely reversed in the second half of the year. Exports of goods and services advanced by 7.6%, but as imports increased more rapidly (by 9.3%), net exports made a negative contribution to GDP growth in 2016, as expected. At the same time, the more rapid advance of imports enlarged external imbalances. However, the current account deficit, amounting to 2.4% of GDP in 2016, is still well covered by inflows of EU transfers and FDI. Economic activity continues to trend upwards as real GDP is expected to increase by around 4.2% in 2017. Private consumption should remain the key growth engine, **boosted by the additional fiscal stimulus**. Tax cuts and the increase of wages in the public sector and pensions would increase households' real disposable income, thus their propensity to spend should remain elevated in 2017. This pattern of economic growth is expected to result in a more rapid expansion of goods and services imports compared to exports, widening external imbalances further.

The main risks the Romanian economy is facing in the forthcoming period are slippages of fiscal policy. In addition to the fiscal stimulus previously decided for 2017, the new parliamentary majority enforced additional fiscal-easing measures, including a reduction of taxes and an increase of public expenses with

Key economic figures and forecasts

	2012	2013	2014	2015	2016	2017e	2018f
Nominal GDP (EUR bn)	133.5	144.3	150.3	160.0	169.1	181.1	193.0
Real GDP (% yoy)	0.6	3.5	3.1	3.9	4.8	4.2	3.5
Industrial output (% yoy)	2.4	7.9	6.1	2.8	1.7	5.0	4.0
Unemployment rate (avg, %)	6.8	7.1	6.8	6.8	6.0	5.4	5.1
Nominal industrial wages (% yoy)	4.6	4.2	7.4	6.6	8.1	8.0	6.5
Producer prices (avg, % yoy)	5.4	2.1	-0.1	-2.2	-1.8	3.0	2.8
Consumer prices (avg, % yoy)	3.3	4.0	1.1	-0.6	-1.5	0.9	2.9
Consumer prices (eop, % yoy)	5.0	1.6	0.8	-0.9	-0.5	1.7	3.0
General budget balance (% of GDP)	-3.7	-2.1	-0.8	-0.8	-2.6	-3.6	-3.8
Public debt (% of GDP)	37.3	37.8	39.4	38.0	37.6	38.7	40.1
Current account balance (% of GDP)	-4.8	-1.1	-0.7	-1.2	-2.4	-3.6	-3.8
Official FX reserves (EUR bn)	35.4	35.4	35.7	35.6	37.9	38.4	39.1
Gross foreign debt (% of GDP)	75.5	68.0	63.0	56.5	54.7	53.0	52.8
EUR/RON (avg)	4.46	4.42	4.44	4.45	4.49	4.50	4.50
USD/RON (avg)	3.47	3.33	3.35	4.01	4.06	4.37	4.29

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

wages in the public sector and of social benefits. If no corrective measures are taken in the coming period, we expect the public budget deficit to climb towards 3.6% of GDP in 2017, and a touch higher in 2018.

As the favourable statistical base effect related to the VAT cut in January 2016 and to the decrease in energy prices one year ago has faded out of the calculation, the annual inflation rate increased substantially at the beginning of 2017 into positive territory (0.2% yoy in February). Still, the headline inflation rate remains depressed given the new favourable supply-side shocks. This January the standard VAT rate was lowered again (from 20% to 19%) and fuel excise taxes were cut, while several non-tax fees and charges paid by consumers were cancelled in February. When adjusting for these temporary supply-side shocks, we estimate that consumer prices will have increased by 1.1% yoy in February, much more than the reported dynamics (0.2% yoy). We expect the **annual inflation rate will continue on an upwards trend** in the coming quarters and total 1.7% yoy in December 2017, before jumping to 2.7% yoy in Q1 2018. The upwards trend will be supported by the fading statistical base effect (cut of tariffs for natural gas and electricity in 2016, cut of taxes in January-February 2017) on the one hand, and by the strengthening of underlying inflationary pressures on the other. In our view, the weak imported inflation has allowed the underlying inflationary pressures to remain low up to now, even though domestic demand increased rapidly. Demand-driven inflationary pressures should become more visible once imported inflation increases, while inflationary expectations should also strengthen.

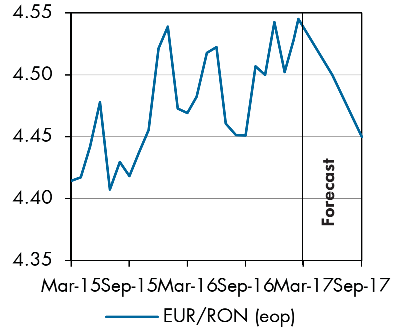
Financial analysts: Nicolae Covrig (+40 799 718 476), Silvia Maria Rosca (+40 799 718 083), Raiffeisen BANK S.A., Bucharest

Financial markets outlook

As long as the ECB continues with its expansive monetary policy and the regional central banks remain on hold, we do not think the NBR will rush to increase the monetary policy rate. So we expect **the key interest rate to remain unchanged at 1.75% until Q1 2018**. However, to cope with the increase in inflation and in macroeconomic imbalances, and to avoid the policy becoming looser, the NBR should take action in H2 2017 in our view. We expect the NBR to tighten its monetary policy stance in H2 2017 by using alternative instruments, i.e. by lifting the interest rate for the deposit facility (0.25% at present). This would result in **an upwards move for the money market rates** from their very low levels at present. Tighter monetary policy conditions on the domestic side and higher yields for foreign bonds should support an increase of yields for RON government securities by the end of the year.

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

Exchange rate development



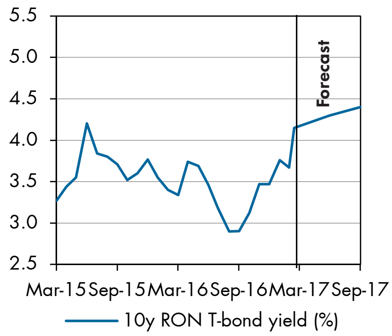
EUR/RON: 5y high 4.64, 5y low 4.29
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

	15-Mar[1]	Jun-17	Sep-17	Dec-17	Mar-18
EUR/RON	4.55	4.50	4.45	4.45	4.50
Cons.		*4.50*	*4.47*	*4.48*	*4.50*
USD/RON	4.28	4.37	4.36	4.36	4.29
Cons.		*4.40*	*4.31*	*4.33*	*4.30*

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

RON yield development (%)



10y RON T-bond yield: 5y high 7.0, 5y low 2.66
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts (%)

	15-Mar[1]	Jun-17	Sep-17	Dec-17	Mar-18
Key rate	1.75	1.75	1.75	1.75	2.00
Consensus		*1.80*	*1.80*	*2.00*	*2.25*
3 month[2]	0.84	1.00	1.15	1.55	1.80
Consensus		*0.96*	*1.15*	*1.58*	*1.86*

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

Yield forecasts (%)

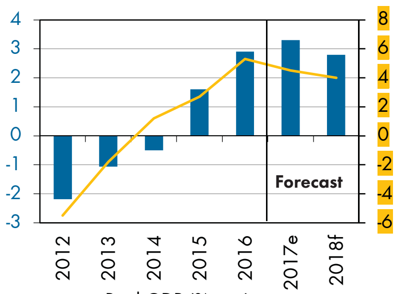
	15-Mar[1]	Jun-17	Sep-17	Dec-17	Mar-18
3y T-bond[2]	2.31	2.5	2.6	2.9	3.2
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*
10y T-bond[2]	4.15	4.3	4.4	4.7	4.8
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*

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

A year of opportunities

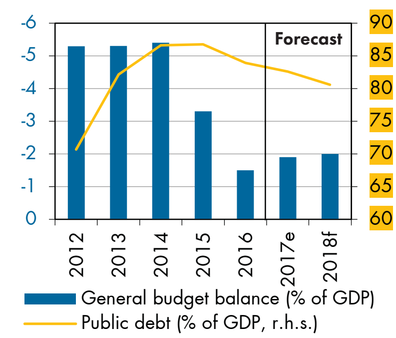
- **Growth driven by domestic demand**
- **Substantial improvement in fiscal metrics**
- **Return of inflation**
- **HRK exposed to appreciation pressures**

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: National sources, RBI/Raiffeisen RESEARCH

Economic outlook

The strong growth momentum gathered in the second half of 2016 is expected to carry over to 2017. The positive effect of tax relief, the latest increases in minimum wages and pensions paired with the planned gradual increase of public sector wages are expected to boost household consumption further. As the bulk of the tourist capacity relates to private accommodation, even conservative projections of tourism indicators (4% yoy increase in nights) provide additional support to the positive sentiment and particularly to disposable income. The inflation acceleration might work in the opposite direction but it will remain below the acceptable two percent, influenced mainly by imported factors from global commodity prices (primarily crude oil and food). So the **much-awaited boost has finally come from investments** that have gained momentum amidst the start of a business cycle and enhanced cost competitiveness, and also due to a more efficient utilisation of EU funds. We anticipate this trend will accelerate both in the private and public sectors. Considering the real loss of more than 40% during the recession, the projected growth rates of close to 6% yoy seem reasonable. In addition, economic growth will receive extra impetus from the government's expansionary fiscal stance, especially considering the upcoming local election schedule for May. After this, Croatia may enjoy a period without any (crucial) elections for some three and a half years. There is a possibility of further export growth, but at a slower pace. Due to the high dependency on imports, the net export contribution might be slightly negative.
The **risk of our growth assessment is closely related to the high exposure of the overall economy to tourism**. On the negative side, the geopolitical risk is always present, but investments in tourism and tourist nights might be even higher than we initially assumed.

Key economic figures and forecasts

	2012	2013	2014	2015	2016	2017e	2018f
Nominal GDP (EUR bn)	44.0	43.5	43.0	43.9	45.6	48.1	50.2
Real GDP (% yoy)	-2.2	-1.1	-0.5	1.6	2.9	3.3	2.8
Industrial output (% yoy)	-5.5	-1.8	1.2	2.7	5.3	4.5	4.0
Unemployment rate (avg, %)	15.9	17.4	17.3	16.3	12.8	12.2	11.2
Nominal industrial wages (% yoy)	1.9	1.7	1.5	-4.1	2.0	1.5	2.2
Producer prices (avg, % yoy)	7.0	0.5	-2.7	-3.9	-4.1	1.5	2.2
Consumer prices (avg, % yoy)	3.4	2.2	-0.2	-0.5	-1.1	1.9	1.6
Consumer prices (eop, % yoy)	4.7	0.3	-0.5	-0.6	0.2	1.4	2.1
General budget balance (% of GDP)	-5.3	-5.3	-5.4	-3.3	-1.5	-1.9	-2.0
Public debt (% of GDP)	70.7	82.2	86.6	86.7	83.9	82.6	80.6
Current account balance (% of GDP)	-0.1	1.0	2.1	5.0	3.1	2.5	2.2
Official FX reserves (EUR bn)	11.2	12.9	12.7	13.8	13.5	13.7	14.0
Gross foreign debt (% of GDP)	103.0	105.3	108.0	103.5	91.4	85.0	83.3
EUR/HRK (avg)	7.52	7.58	7.63	7.61	7.53	7.45	7.46
USD/HRK (avg)	5.85	5.71	5.76	6.86	6.81	7.23	7.10

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

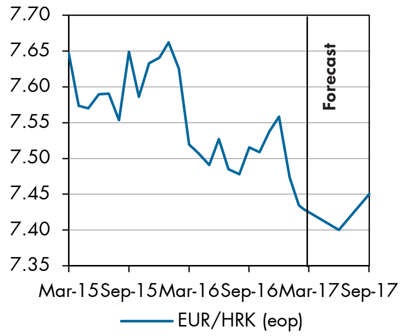
Meanwhile, external vulnerability continued to decrease while fiscal metrics strongly improved. The budget deficit is expected to fall even below 2% of GDP in 2016 on the back of windfall revenues and contained expenditure growth. The growth in primary expenditure is expected to remain below nominal GDP growth, thus keeping public debt on a downwards path. Achieving even the lower deficit (and higher primary surplus) is exposed to a positive risk amidst the economic growth, more efficient tax administration and rational government spending. Still, we remain cautious as some expenditure might increase (such as social transfers to households) and the Government still needs to reach a permanent agreement with public-sector trade unions. The relatively high public debt clearly sends a warning about the current vulnerabilities and the need to tackle the deep-seated structural weaknesses (health system, education, SOE restructuring problems, etc.). Nevertheless, we expect Croatia to exit the Excessive Deficit Procedure (EDP) in May.

Financial market outlook

The local financial market has continued to enjoy ample liquidity, thus exerting further pressure on interest rates. With the still subdued inflation and FX stability (especially as there are no depreciation pressures at all), the **CNB remains comfortable with its accommodative stance**. We expect similar developments at least until the end of the year. Economic recovery, improved fiscal metrics and a stabilisation of the sovereign credit rating might put some more pressure on sovereign yields. Therefore the local bond issuance planned for H2 might achieve good pricing. As is now customary, domestic pension funds will pick up most of the issuance, thereby satisfying the hunger for a new issue, but this time with relatively high-yielding assets. With one Eurobond and three local bond issuances Croatia will close its 2017 refinancing needs easily, and even ensure some pre-financing. The focus of the local markets will remain on EUR/HRK developments. A lower EUR/HRK compared to the previous years confirms that when the economy is on the rise, the HRK is more exposed to appreciation pressures. However, the intensity of the appreciation pressures is somewhat unexpected. As early as Q1, the EUR/HRK touched the levels last seen in summer 2012. Although dividend payouts to non-residents might create some depreciation pressure on the HRK, **the local currency will continue to find support** in the following factors: FCY inflow from tourism and investments, positive net foreign position of banks, improved fiscal metrics and stronger demand for HRK loans.

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

Exchange rate development



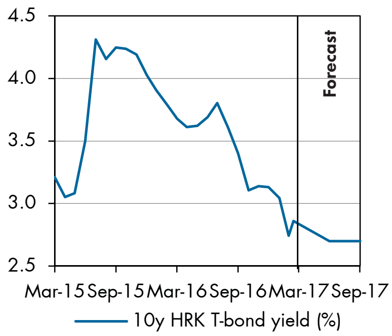
EUR/HRK: 5y high 7.72, 5y low 7.39
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

	15-Mar[1]	Jun-17	Sep-17	Dec-17	Mar-18
EUR/HRK	7.43	7.40	7.45	7.50	7.45
Cons.		*7.56*	*7.56*	*7.57*	*7.57*
USD/HRK	6.99	7.18	7.30	7.35	7.10
Cons.		*7.18*	*7.22*	*7.16*	*6.97*

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

HRK yield development (%)



10y HRK T-bond yield: 5y high 7.13, 5y low 2.72
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecast (%)

	15-Mar[1]	Jun-17	Sep-17	Dec-17	Mar-18
3 month[2]	0.61	0.60	0.65	0.60	0.70
Consensus		*0.58*	*0.58*	*0.60*	*0.69*

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

Yield forecasts (%)

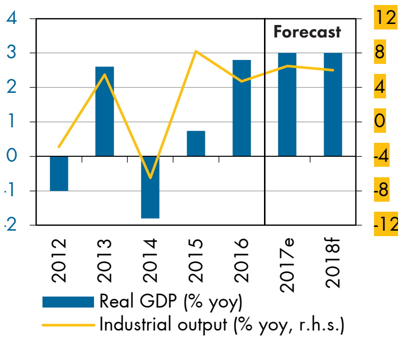
	15-Mar[1]	Jun-17	Sep-17	Dec-17	Mar-18
2y T-bond	1.44	1.3	1.3	1.3	1.4
Consensus		n.v.	n.v.	n.v.	n.v.
10y T-bond	2.86	2.7	2.7	2.7	2.8
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*

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

Presidential elections, no big surprises

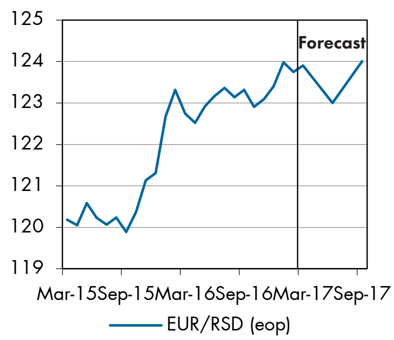
- IMF plans only two reviews this year
- Presidential elections to produce no big surprise
- CPI enters target range
- Eurobond issue on the table in Q2

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Exchange rate development



EUR/RSD: 5y high 124.06, 5y low 110.33
Source: Bloomberg, RBI/Raiffeisen RESEARCH

The regular **presidential elections in early April** and the decision by current Prime Minister Vucic to enter the race are not expected to hamper the implementation of the public-sector reforms. This observation is supported by the backing Mr Vucic enjoys according to the polls, while we expect he will also play a very active role in the reform process launched under his guidance. Given that the country has met most of the quantitative targets set under the precautionary stand-by arrangement (SBA), the International Monetary Fund (IMF) is planning only two technical reviews during 2017. The main obstacle to executing the deal is the reform/privatisation of state-owned companies that will be on the agenda this year. Furthermore, the government is mulling over signing the new programme that will expire next year. Volatile appetite for the local debt issuance, non-residents' withdrawal amidst the Fed's key rate hikes and expected yield growth after the elections might prompt the government to increase the initially planned Eurobond to EUR 1 bn, which will be issued in Q2.

Inflation has entered the 3% +/-1.5pp target range and it is expected to hover around the central projection throughout 2017, which supports our key-rate forecast of 4% this year. After the traditional seasonally impacted EUR/RSD sentiment in Q1, the **exchange rate will strengthen against the euro in Q2** with the better export performance and the government's subsidy scheme supporting FDI inflows. Exports and infrastructure investments will be supportive for economic growth, a further decline in the unemployment rate (Q4 2016: 13%) and a narrowing of the current account. Though interest rates have started to move upwards, the correction is still too small to restrain the growth in the lending cycle which began in 2016.

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

Key economic figures and forecasts

	2012	2013	2014	2015	2016	2017e	2018f
Nominal GDP (EUR bn)	31.7	34.3	33.1	33.3	35.0	37.6	39.8
Real GDP (% yoy)	-1.0	2.6	-1.8	0.7	2.8	3.0	3.0
Industrial output (% yoy)	-2.9	5.5	-6.5	8.2	4.7	6.5	6.0
Unemployment rate (avg, %)	23.9	22.1	19.2	17.7	15.3	16.0	14.0
Nominal industrial wages (% yoy)	1.5	1.5	4.0	2.9	4.0	4.0	4.0
Producer prices (avg, % yoy)	5.6	3.6	0.7	0.2	-0.5	1.5	2.5
Consumer prices (avg, % yoy)	7.3	7.9	2.1	1.4	1.2	2.5	2.9
Consumer prices (eop, % yoy)	12.2	2.2	1.7	1.5	1.6	2.8	3.0
General budget balance (% of GDP)	-6.8	-5.5	-6.6	-3.7	-1.3	-1.8	-1.8
Public debt (% of GDP)	55.9	58.8	68.8	74.7	71.6	70.5	66.4
Current account balance (% of GDP)	-11.5	-6.1	-6.0	-4.6	-3.9	-3.7	-3.5
Official FX reserves (EUR bn)	10.9	11.2	10.0	10.4	10.2	10.8	11.5
Gross foreign debt (% of GDP)	81.1	75.4	78.6	81.6	74.2	70.5	66.6
EUR/RSD (avg)	113.0	113.1	117.3	120.7	123.1	123.6	124.9
USD/RSD (avg)	88.0	85.2	88.5	108.8	111.3	120.0	118.9

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

B&H bounce back from harsh political crisis in Q1

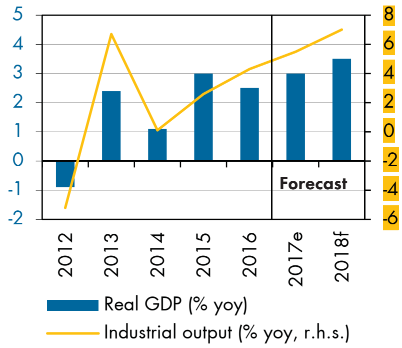
- **Political crisis triggered by revision of ICJ proceedings**
- **B&H manages to avoid blockade of state institutions and possible halt to EU accession process and continuation of IMF programme**
- **Baseline scenario of 3% real economic growth yoy still intact**
- **Arrangement with IMF through Extended Fund Facility and continuation of infrastructure works possible**

A **political crisis took central stage in B&H in Q1 2017**, triggered by the Bosniak member of B&H's tripartite presidency, Mr. Izatbegović, to launch an official revision of the proceedings at the International Court of Justice (ICJ) from 2007 in the case against Serbia for responsibility for the Srebrenica genocide.

However, the political crisis in the country abated considerably in mid-March, especially after the extraordinary session of the Parliamentary Assembly of the Republic of Serbia, where it was clear that the RS political parties took a more moderate stance and shied away from blocking the state institutions. One of their decisions was to continue pushing for the four remaining actions necessary to release the second tranche of the EFF with the IMF in April 2017, which both entities rely on. In addition, on 9 March the ICJ official turned down the request for a revision of the proceedings from 2007, as the decision was not brought by all three Presidency Members of B&H. The authorities will now be challenged with preparing the materials for the EC's Questionnaire and meeting the IMF's reform agenda in H1, which could eventually trigger candidate country status by the end of the year and payment of the second tranche by the IMF in H1 2017. The potential downward risk to our outlook is still related to possible latent political disagreements and holding back with public investments, or disruptions related to meeting the EFF's reform agenda with the IMF. **Our baseline scenario remains intact**, which means a slight acceleration of **economic growth in 2017 up to 3% yoy**, driven by the resumption of public investments in Corridor Vc and the start of the TTP Tuzla project, along with investments in renewable energy (HP Vrandunk, WP Podveležje and Mesihovina). This would bring gross fixed capital investment up to 8.5% yoy in 2017, along with the already positive outlook for goods exports at an expected 5.9% yoy due to the favourable economic outlook of B&H's major export markets (EU and SEE).

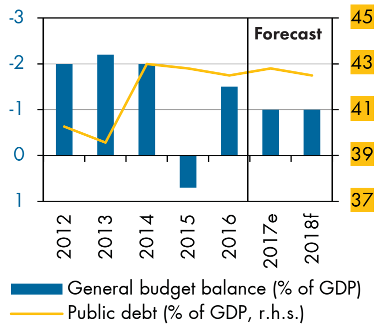
Financial analyst: Ivona Zametica (+387(33) 287 784), Raiffeisen BANK d.d., Sarajevo

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: National sources, RBI/Raiffeisen RESEARCH

Key economic figures and forecasts

	2012	2013	2014	2015	2016	2017e	2018f
Nominal GDP (EUR bn)	13.4	13.7	14.0	14.6	15.2	16.0	17.1
Real GDP (% yoy)	-0.9	2.4	1.1	3.0	2.5	3.0	3.5
Industrial output (% yoy)	-5.2	6.7	0.1	2.6	4.3	5.5	7.0
Unemployment rate (avg, %)	28.0	27.5	27.5	27.7	25.4	24.3	23.0
Nominal industrial wages (% yoy)	2.2	-0.5	0.3	0.0	1.2	5.0	5.5
Producer prices (avg, % yoy)	1.3	-2.2	-0.2	0.6	-2.3	2.0	2.2
Consumer prices (avg, % yoy)	2.1	-0.1	-0.9	-1.0	-1.1	2.0	2.0
Consumer prices (eop, % yoy)	1.8	-1.2	0.0	-1.3	-0.2	1.7	2.1
General budget balance (% of GDP)	-2.0	-2.2	-2.0	0.7	-1.5	-1.0	-1.0
Public debt (% of GDP)	40.3	39.6	43.0	42.8	42.5	42.8	42.5
Current account balance (% of GDP)	-9.1	-5.3	-7.5	-5.6	-5.4	-7.0	-7.7
Official FX reserves (EUR bn)	3.3	3.6	4.0	4.4	4.9	4.8	5.0
Gross foreign debt (% of GDP)	52.2	52.2	51.8	53.4	54.7	54.9	54.2
EUR/BAM (avg)	1.96	1.96	1.96	1.96	1.96	1.96	1.96
USD/BAM (avg)	1.52	1.47	1.47	1.76	1.77	1.90	1.86

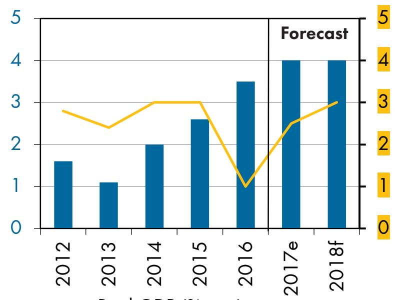
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Raiffeisen RESEARCH

Election year

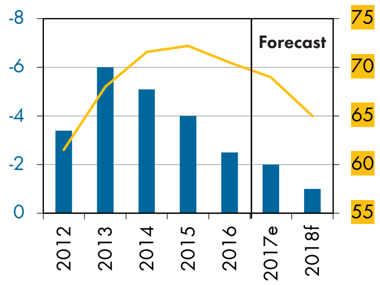
- **Public debt declining**
- **Political tensions increase as opposition boycotts parliament**
- **New President to be elected in mid-May**
- **General elections to be held in June this year, along with judiciary system reform, are key to EU accession talks**

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: National sources, RBI/Raiffeisen RESEARCH

The economy recorded stable cumulative growth of 3.3% until September 2016, supported mostly by the services sector and construction. We expect growth of around 3.3-3.5% for 2016 as a whole, followed by a pick-up to 4.0% in 2017, sustained by **continued FDI from large energy projects and a gradual recovery of domestic demand**.

Despite 2017 being an election year and public capital expenditures usually trending upwards before the elections, we expect the public sector to remain committed to fiscal adjustments in the medium term in order to reduce public debt below 60% of GDP by 2019, to maintain a healthy public deficit of -2.0% of GDP in 2017 and to accelerate the implementation of the structural reforms.

The IMF loan programme is coming to an end, and any new agreement will be decided after the general elections. So far, IMF staff have found the economic programme to be on track, while the implementation of structural reforms is making good progress.

Moving closer to the general elections, tensions are intensifying as the opposition has decided to boycott parliament and protest on the streets for a new technical government to guarantee free and fair elections. This **unclear political situation is likely to delay the implementation of the judiciary reform** as support from the opposition is needed to approve and create the new judiciary institutions, and therefore open the negotiation process as well. So far the governing coalition seems to be in the lead, but the LSI, the strategic partner in the current governing coalition, has yet to decide whether to enter alone or in a coalition with the SP. Should the LSI decide to abandon the current coalition then the outcome of the general election will be very close to call. The current parliament will elect the new President of the Republic in mid-May this year.

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

Key economic figures and forecasts

	2012	2013	2014	2015	2016	2017e	2018f
Nominal GDP (EUR bn)	9.6	9.7	10.0	10.3	11.0	11.8	12.4
Real GDP (% yoy)	1.6	1.1	2.0	2.6	3.5	4.0	4.0
Industrial output (% yoy)	2.8	2.4	3.0	3.0	1.0	2.5	3.0
Unemployment rate (avg, %)	13.3	17.0	18.0	17.7	15.0	14.5	14.0
Nominal industrial wages (% yoy)	8.0	8.0	8.0	8.0	3.0	1.9	3.7
Producer prices (avg, % yoy)	1.1	-0.4	-0.5	1.0	-2.5	1.0	2.0
Consumer prices (avg, % yoy)	2.0	1.9	1.6	1.8	1.3	2.5	2.7
Consumer prices (eop, % yoy)	2.4	1.9	0.7	1.9	2.2	2.7	3.0
General budget balance (% of GDP)	-3.4	-6.0	-5.1	-4.0	-2.5	-2.0	-1.0
Public debt (% of GDP)	61.5	68.0	71.6	72.2	70.5	69.0	65.0
Current account balance (% of GDP)	-9.4	-10.5	-12.9	-13.6	-13.6	-13.6	-12.1
Official FX reserves (EUR bn)	2.0	2.0	2.2	2.9	2.9	2.8	2.8
Gross foreign debt (% of GDP)	57.4	65.5	69.2	72.6	71.7	68.8	67.0
EUR/ALL (avg)	139.0	140.3	140.0	139.7	137.3	136.9	139.4
USD/ALL (avg)	108.2	105.7	105.5	126.0	124.2	132.9	132.7

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

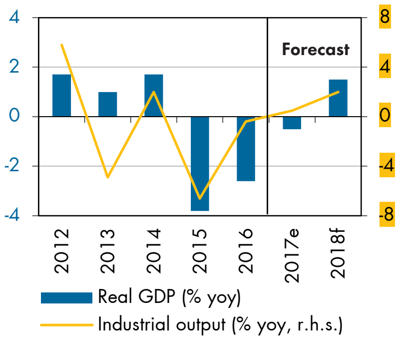
GDP revised downwards slightly on pending energy dispute

- **Third year of recession possible**
- **Unresolved controversies with Russia impede growth prospects from higher commodity prices and recovery in Russian market**
- **Inflation retreats further thanks to prudent monetary and fiscal policies**
- **External liquidity weak, domestic FX bankroll supports reserves and BYN**

The Belarusian economy continued contracting in early 2017 after two recessionary years. Higher commodity prices (especially for oil products; potash prices likely bottomed out in 2016 as well) and the expected recovery in Russia might lend some positive stimulus to Belarusian exports (up by 15% in January). We revised our 2017 **GDP forecast downwards slightly (-0.5% yoy) to reflect the uncertainty** regarding the pending energy dispute with Russia (no agreement on gas prices, reduced crude oil supplies). Internal demand is not set to drive GDP in 2017 because of the continued prudent policies by local authorities. The National Bank limits the credit flow to the economy by withdrawing excess BYN liquidity from the banking sector via continuous short-term bond offerings and deposits. Real disposable incomes of households decreased by 7.3% in 2016, the fall in retail sales accelerated to 4.6% in January 2017. Lower CPI levels at 9.5% yoy in January 2017 (and the 9% official year-end target) allowed a 3-step reduction of the key rate in early 2017, from an initial 18% to 15% by mid-March, and there is still room for further cuts. **External liquidity remains weak.** The C/A in 2017 is expected to continue posting a deficit of around USD 2bn, while public FX debt repayments are estimated at around USD 3bn. A slight foreign trade deficit has returned recently, while the EFSD loan is currently stalled and no updates have been made public on the IMF loan. On the other hand, ongoing domestic FX borrowings and FX sales by households are relieving FX pressures and contributing to FX reserve growth (USD 5bn). The BYN devalued by 15% against the basket in 2016 (mainly due to the stronger RUB) and started 2017 with a robust 2% appreciation by late February. We reckon the recent appreciation of the local currency will rather be a short-term trend. A limited rollover of external borrowings, currently offset by the internal FX support available, may bring **the BYN back onto a devaluation path**.

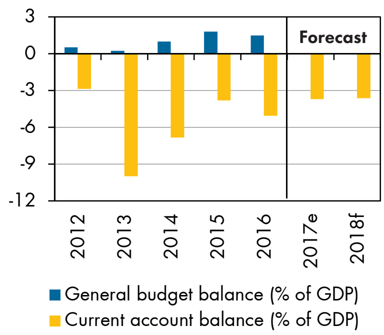
Financial analyst: Natalya Chernogorova, Priorbank Open Joint-Stock Company, Minsk

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Budget and current account balance



Source: National sources, RBI/Raiffeisen RESEARCH

Key economic figures and forecasts

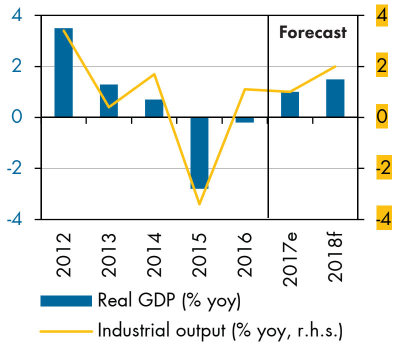
	2012	2013	2014	2015	2016	2017e	2018f
Nominal GDP (EUR bn)	49.4	54.9	57.2	49.1	42.9	49.8	47.4
Real GDP (% yoy)	1.7	1.0	1.7	-3.8	-2.6	-0.5	1.5
Industrial output (% yoy)	5.8	-4.9	2.0	-6.6	-0.4	0.5	2.0
Unemployment rate (avg, %)	0.5	0.5	0.5	1.0	0.8	2.0	2.0
Nominal industrial wages (% yoy)	93.8	35.2	20.1	7.6	7.3	10.0	10.0
Producer prices (avg, % yoy)	76.0	13.6	12.8	16.8	17.0	12.5	11.0
Consumer prices (avg, % yoy)	59.2	18.3	18.1	13.5	12.0	12.0	11.0
Consumer prices (eop, % yoy)	21.8	16.5	16.2	12.0	10.6	11.0	9.0
General budget balance (% of GDP)	0.5	0.2	1.0	1.8	1.5	0.0	0.0
Public debt (% of GDP)	31.3	32.5	34.1	36.5	39.0	38.7	36.5
Current account balance (% of GDP)	-2.9	-10.0	-6.8	-3.8	-5.1	-3.7	-3.6
Official FX reserves (EUR bn)	6.1	4.8	4.2	3.8	4.7	4.3	4.2
Gross foreign debt (% of GDP)	51.9	51.8	52.6	70.2	79.1	73.1	74.8
EUR/BYN (avg)	1.07	1.18	1.36	1.77	2.20	2.11	2.50
USD/BYN (avg)	0.84	0.89	1.02	1.60	1.99	2.05	2.38

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

First year after recession

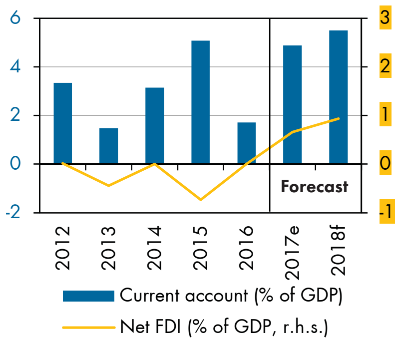
- GDP growth to be supported by rising oil prices
- CBR cautious with key-rate cuts to achieve 4% inflation target and protect rouble depreciation
- Larger capital outflows could counterbalance oil support for RUB
- Fixed-coupon OFZs still not attractive, but longer-term appeal intact

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Current account and FDI inflows



Source: National sources, RBI/Raiffeisen RESEARCH

Economic outlook

In 2017 we expect the Russian **economy will shift to positive growth rates** (1% yoy) on the backdrop of oil price growth (Brent USD 58/bbl on average in 2017) and the moderately weak rouble. The recovery of domestic demand will be the main driver of growth in 2017 following a pick-up in private consumption (+2.5% yoy) and fixed asset investment (+3% yoy). The inventory cycle may be supportive for a recovery of GDP (+1.9pp to GDP growth in 2017). Net exports will make a negative contribution to GDP growth though (-2.9pp to GDP growth in 2017) given the relatively weak export dynamics and a rather marked recovery of imports. In 2017 we also expect an improvement on the supply side, which could translate into **1% yoy growth for industrial production**. While the support from the 2014-2015 rouble depreciation will virtually disappear, and no further pronounced weakening is expected, the main driver of industrial output growth will be domestic demand, and exporters may lose some of their competitive advantages. Meanwhile, we expect inflation to continue its downward trend towards the CBR's target of 4% by 2017 year-end. However, our **baseline scenario puts CPI inflation at 4.5% yoy in 2017**, which reflects some material risks for the set target. Although we believe that most of the necessary conditions are likely to be met to facilitate continued disinflation (modest regulated tariff indexation, relatively slow recovery of consumption, relatively stable rouble), there are risks connected with indexing social expenditures that may make the path to the 4% target rather bumpy. Even if the target is reached, we do not believe this level is sustainable given the large share of non-monetary factors in the CPI. Thus the **CBR's policy will most likely remain rather cautious** and data-dependent. We now expect the first 50bp key rate cut to come no earlier than June 2017, with a total of 2 cuts (100bp) throughout the year, against the backdrop of some rather hawkish rhetoric from the CBR.

Financial analyst: Stanislav Murashov, AO Raiffeisenbank, Moscow

Key economic figures and forecasts

	2012	2013	2014	2015	2016	2017e	2018f
Nominal GDP (EUR bn)	1,677.1	1,678.8	1,551.7	1,223.8	1,158.3	1,470.1	1,523.6
Real GDP (% yoy)	3.5	1.3	0.7	-2.8	-0.2	1.0	1.5
Industrial output (% yoy)	3.4	0.4	1.7	-3.4	1.1	1.0	2.0
Unemployment rate (avg, %)	5.5	5.5	5.2	5.6	5.5	5.3	5.3
Average gross wages (% yoy)	14.8	12.3	8.3	4.2	7.9	6.0	6.0
Producer prices (avg, % yoy)	6.8	3.4	6.1	12.4	4.0	7.5	6.5
Consumer prices (avg, % yoy)	5.1	6.8	7.8	15.6	7.1	4.7	4.5
Consumer prices (eop, % yoy)	6.6	6.5	11.4	12.9	5.4	4.5	4.5
General budget balance (% of GDP)	0.4	-1.0	-1.0	-3.6	-3.7	-2.6	-2.4
Public debt (% of GDP)	10.5	11.3	11.5	12.7	13.5	14.0	14.5
Current account balance (% of GDP)	3.3	1.5	3.1	5.1	1.7	4.9	5.5
Official FX reserves (EUR bn)	407.8	369.8	318.5	339.1	365.0	397.1	401.9
Gross foreign debt (% of GDP)	29.5	32.7	29.1	37.9	39.1	30.5	26.0
EUR/RUB (avg)	39.9	42.3	51.0	68.0	74.1	62.0	64.3
USD/RUB (avg)	31.1	31.9	38.6	61.3	67.0	60.2	61.3

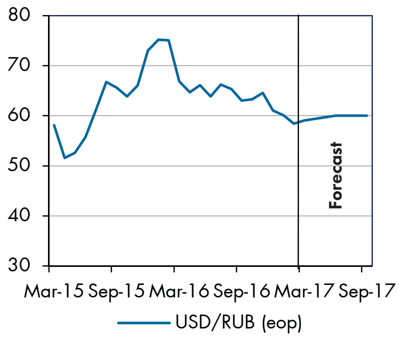
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Financial market outlook

In February 2017, and unexpected by many, the MinFin implemented FX interventions to buy/sell USD against the RUB when URALS oil is above/below USD 40 per bbl. Two months later, since the start of this intervention, we have seen no notable impact on the USD/RUB, i.e. the **interventions have not yet been priced in**. We attribute this to the high inflow of export revenue (big state exporters are still compelled to convert FX revenue into RUB on a regular basis) compared to imports in Q1 and FX interventions, while the ability of speculative investors to bet against the RUB is very limited (greater regulatory supervision over currency transactions). Going forward in Q2 and Q3 we expect the CA balance to shrink from USD 20bn as of Q1 to USD 3-5bn per quarter, which is not enough to cover the FX interventions and external debt redemption. Compared to the FX-denominated balances on banks' current accounts there is very little room for a further reduction of FX liquid assets to compensate for outflows from corporate accounts, which will remain high. For example, Rosneft alone needs to repay roughly USD 13bn of its debt (mostly external) in 2017. Based on these factors we believe the **RUB should weaken over the next 6 months even at stable oil prices**. Over the long term (forecast for 2019), a recovery of imports backed by economic growth will increase the depreciation pressure on the RUB, all other factors being equal. In Q1 the OFZ yield curve has steepened (after being almost flat in Q4). The trigger was the hawkish CBR rhetoric assuring investors that key rates will be kept high for longer than was expected (no cut in Q1 was almost guaranteed in its press release following the committee meeting in February). For local investors, OFZ are still not interesting to buy and hold as the papers are carry-negative (minus 100 - 200bp over REPO rates). Given our negative view on the RUB we do not see short-term attractiveness of tightly priced OFZs for foreigners. **Later this year, however, re-entering the market at presumably higher USD/RUB and yields levels could be attractive.** Although yield decreases might be rather limited also in the longer term (as the MinFin aims to print a net amount of over RUB 1tn), the still high carry should generate a favorable performance. For the longer term, we still prefer floating OFZs as they have low volatility and deliver quite a high yield just now (10.5-11%). If 10y fixed-coupon papers reach or head below 8% (26207, 26212, 26218) we would recommend considering opening speculative short positions.

Financial analyst: Denis Poryvay, AO Raiffeisenbank, Moscow

Exchange rate development



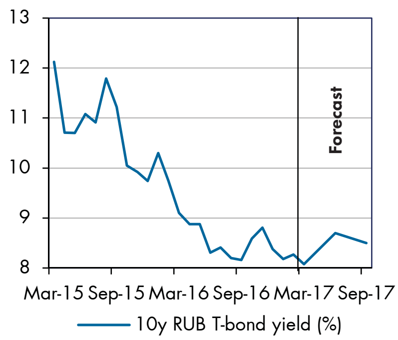
USD/RUB: 5y high 84.24, 5y low 29
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

	15-Mar[1]	Jun-17	Sep-17	Dec-17	Mar-18
EUR/RUB	62.81	61.8	61.2	63.2	65.1
Cons.		*63.0*	*62.8*	*63.7*	*62.0*
USD/RUB	59.09	60.0	60.0	62.0	62.0
Cons.		*60.0*	*60.8*	*61.0*	*60.0*

[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, RBI/Raiffeisen RESEARCH

Interest rate forecasts (%)

	15-Mar[1]	Jun-17	Sep-17	Dec-17	Mar-18
Key rate	10.00	9.50	9.00	9.00	8.75
Consensus		*9.6*	*9.1*	*8.6*	*8.3*
3 month[2]	10.43	10.00	9.50	9.50	9.25
Consensus		n.v.	n.v.	n.v.	n.v.

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

Yield forecasts (%)

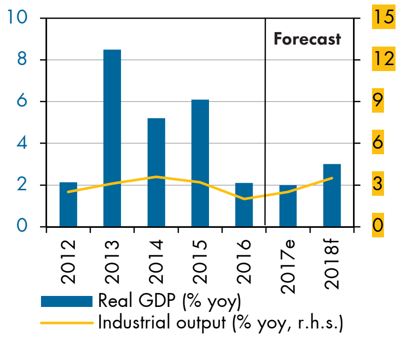
	15-Mar[1]	Jun-17	Sep-17	Dec-17	Mar-18
2y T-bond[2]	8.40	8.70	8.50	8.30	8.30
Consensus		n.v.	n.v.	n.v.	n.v.
10y T-bond[2]	8.08	8.70	8.50	8.35	8.40
Consensus		n.v.	n.v.	n.v.	n.v.

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

Politics the main short-term burden

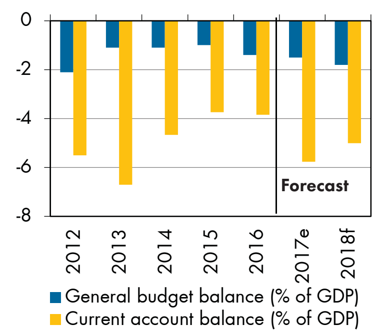
- **GDP depressed by politics**
- **Vote on presidential system on 16 April**
- **Internal and external events to continue weighing negatively on TRY**
- **Cautious view on TURKGBs as long as central bank continues with unorthodox approach**

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Budget and current account balance



Source: National sources, RBI/Raiffeisen RESEARCH

Economic outlook

According to the latest economic surveys, the **Turkish economy has barely risen from its trough**. The consumer confidence index slipped again in February, hitting 65.7 from 66.9 points last month. All sub-indices of the main index were lower during the month. These numbers suggest that activity still remains reluctant to move into the fast lane, despite generous government incentives. Exports and public spending could help the country's growth rate recover in 2017. Based on preliminary data from the Exporters' Assembly of Turkey, exports rose 15% in January, the highest rise in the last 49 months. On the other hand, tourist arrivals, a main contributor to growth, are still depressed. According to an IMF estimate, a 10-percent decline in foreign arrivals translates into a 0.3–0.5 percent fall in GDP. Studies show that the recovery is likely to be slow as repeated incidences of violence tend to have long-lasting effects on tourist arrivals. A first guess at GDP data will be available at the end of March. So we leave our **GDP growth** unchanged at a **meagre 2.0% for 2017** and **slightly cut 2018 growth from 3.5% to 3.0%**. Despite lower core imports amidst subdued economic activity, we believe the higher energy bill and ongoing softness in tourism revenues will result in a **wider current account gap** of about 5–6% of GDP this year, from an estimated 3.8% of GDP in 2016.

The **slowing economy** and the **weaker lira** have **increased** the **likelihood** of a marked deterioration **in bank asset quality**. Any additional lira depreciation would weaken corporate balance sheets further and jeopardise financial stability, given corporates' large FX open positions. Due to limited FX reserves, any intensification of risk aversion against Turkish assets would make it very difficult for the Turkish central bank to avoid conventional interest-rate hikes. As the lira has lost a quarter of its value the past year, the cumulative depreciation effect could add more than 2 percentage points to headline inflation over the next 12 months.

Financial analyst: Lydia Kranner, RBI Vienna

Key economic figures and forecasts

	2012	2013	2014	2015	2016	2017e	2018f
Nominal GDP (EUR bn)	678.4	714.7	703.8	773.4	767.6	723.7	723.4
Real GDP (% yoy)	2.1	8.5	5.2	6.1	2.1	2.0	3.0
Industrial output (% yoy)	2.5	3.1	3.6	3.2	2.0	2.5	3.5
Unemployment rate (avg, %)	8.4	9.0	9.9	10.3	10.0	10.3	10.0
Nominal industrial wages (% yoy)	6.0	6.0	n.v.	n.v.	n.v.	n.v.	n.v.
Producer prices (avg, % yoy)	6.1	4.5	10.2	5.3	4.3	8.0	6.0
Consumer prices (avg, % yoy)	8.9	7.5	8.9	7.7	7.8	10.0	8.0
Consumer prices (eop, % yoy)	6.1	7.4	8.2	8.8	7.0	9.0	7.5
General budget balance (% of GDP)	-2.1	-1.1	-1.1	-1.0	-1.4	-1.5	-1.8
Public debt (% of GDP)	36.2	36.2	35.0	34.0	32.0	33.0	32.0
Current account balance (% of GDP)	-5.5	-6.7	-4.7	-3.7	-3.8	-5.8	-5.0
Official FX reserves (EUR bn)	90.4	95.1	105.2	101.7	100.6	107.8	98.1
Gross foreign debt (% of GDP)	38.9	41.0	43.0	46.4	48.3	56.3	59.2
EUR/TRY (avg)	2.31	2.53	2.90	3.02	3.34	3.92	4.35
USD/TRY (avg)	1.80	1.91	2.19	2.73	3.02	3.81	4.14

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

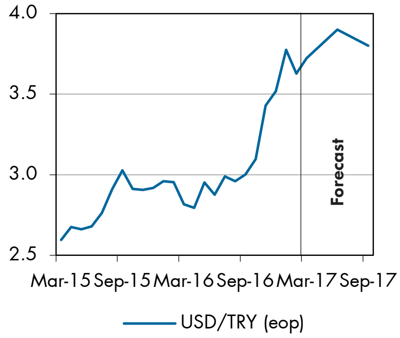
Financial market outlook

The weakening of the lira intensified during Q1 with the USD/TRY peaking near 3.95 in mid-January, before seeing some moderate relief in the following month from oversold levels. Despite this recovery from the extreme lows, the overall situation remains extremely challenging and risks for additional lira setbacks are manifold. Whereas the **political (and economic) situation should weigh on the TRY throughout Q2** with the vote on the presidential system set for 16 April, additional depreciation pressure should emerge externally given the ongoing US rate-hiking cycle. Due to the high indebtedness of the private sector, the projected USD strengthening should put additional pressure on the lira. That said, we see a high risk of more TRY depreciation for Q2 with persistent elevated volatility. Given the ongoing US rate hikes throughout 2017 combined with our assumption of a stronger USD, the **medium-term outlook for the lira remains challenging too**. We currently do not see any arguments in favour of a sustainable lira recovery, despite the fairly oversold levels already.

In line with the TRY weakening vs. hard currencies, local currency government bonds underperformed among Emerging Market bonds. Since the beginning of this year, the 10y benchmark TURKGB posted a negative absolute performance (price plus FX performance vs. EUR) of around 3%. **The losses, however, would have been much more pronounced if not for an impressive relief rally in TURKGBs** since mid-January and mid-February, which went hand in hand with the lira's relief rally. The tightening of monetary conditions by the Turkish central bank (TCMB) helped to trigger this rally in essence, but it was short-lived. Therefore the TCMB was forced to increase the weighted average costs of funding (WACF) further in March as the Fed rate-hike speculations and escalating political tensions with the EU added to the renewed depreciation of Turkish assets. The latest increase in the late liquidity window from 11% to 11.75% could push WACF up further going forward, which have increased by 250bp in the year-to-date (to around 10.8% in mid-March). Within its multi-interest policy approach the bank's other rates, i.e. the 8% 1w repo and the overnight interest rate corridor (7.25%-9.25%) were left untouched. We expect the TCMB will continue with its desperate balancing act between market pressure (calling for higher rates / orthodox measures) and local political influence (calling for lower rates). Against the backdrop of an increasingly hawkish global central bank environment and the ongoing political tension, we assume the TCMB will finally be forced to return to orthodox measures in the medium term (although this is hard to predict). Consequently, **we maintain our cautious view on lira bonds.**

Financial analyst: Stephan Imre,Wolfgang Ernst, CEFA, RBI Vienna

Exchange rate development



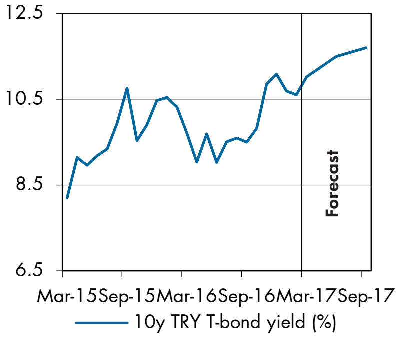
USD/TRY: 5y high 3.91, 5y low 1.75
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

	15-Mar[1]	Jun-17	Sep-17	Dec-17	Mar-18
EUR/TRY	3.96	4.02	3.88	4.18	4.31
Cons.		*3.91*	*3.88*	*3.93*	*4.12*
USD/TRY	3.72	3.90	3.80	4.10	4.10
Cons.		*3.80*	*3.80*	*3.85*	*3.92*

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

TRY yield development (%)



10y TRY T-bond yield: 5y high 11.62, 5y low 6.02
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts (%)

	15-Mar[1]	Jun-17	Sep-17	Dec-17	Mar-18
Key rate	8.00	8.00	8.00	10.00	10.00
Consensus		*8.55*	*8.75*	*8.75*	*8.75*
3 month[2]	12.27	12.50	12.70	11.50	10.80
Consensus		*11.27*	*11.38*	*11.42*	*11.60*

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

Yield forecasts (%)

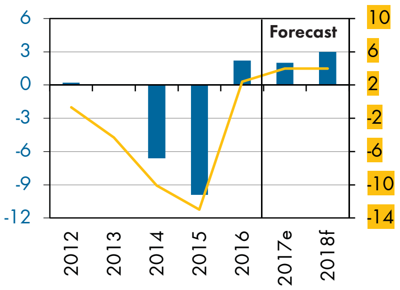
	15-Mar[1]	Jun-17	Sep-17	Dec-17	Mar-18
2y T-bond	11.31	11.7	11.7	10.9	10.5
Consensus		*10.9*	*10.7*	*10.7*	*10.5*
10y T-bond	11.02	11.5	11.7	11.0	10.5
Consensus		*12.0*	*12.0*	*11.8*	*13.4*

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

Economy growing under high risks

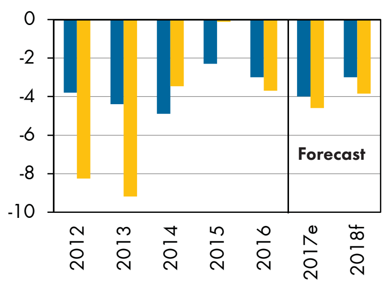
- **Strong GDP performance in Q4 2016**
- **Sharp deceleration of inflation in 2016, but much slower in 2017**
- **Wide trade deficit in 2016 on the back of growing import demand after economic stabilisation**
- **Economic blockade as risk to further economic growth**

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Budget and current account balance



Source: National sources, RBI/Raiffeisen RESEARCH

An outstanding economic performance in the **last quarter of 2016 brought the GDP figure to about 2.2% yoy for the full year**. So we underestimated the Ukrainian economy's ability to recover by about 1.2pp. Industrial production improved by 2.8% yoy after a 13% contraction in the previous year. The agricultural sector surged by 6.1% yoy against the backdrop of an abundant harvest. Furthermore, business activity growth resulted in a significant construction expansion by 17.4% yoy in 2016. As for external trade, goods exports shrank by 5.2% yoy, while imports expanded by 3.8% yoy. Consequently, the current account recorded a deficit of about 3.6% of GDP after being almost balanced in 2015. At the same time, the cumulative balance of payments recorded a surplus of USD 1.4bn (or about 1.5% of GDP) as the financial account surplus ballooned eightfold to USD 4.6bn in 2016 due to the reduction of foreign currency outside the banks and growth of FDI inflows to the banking system. Thanks to the IMF tranche (USD 1bn) and US guarantees (USD 1bn), Ukraine managed to increase its gross international reserves by USD 2.2bn to USD 15.5bn. **Inflation decelerated to 12.4% yoy in 2016 from 43.3% yoy in 2015** owing to a strong base effect and the relatively stable FX market.

At the beginning of 2017 the situation in Donbas deteriorated. Aside from the ongoing armed clashes (though less intense in February than in late-January), a group of Ukrainian activists blocked railroad communication with the areas not controlled by the government. The disruption of trade (especially coal from Donbas) poses a **risk to economic growth and FX if it continues**. Nevertheless, we still forecast 2% yoy economic growth in 2017, while inflation will decelerate to 9% yoy by December after being within 10-15% for most of the year.

Financial analysts: Sergii Drobot, Raiffeisen Bank Aval Public Joint Stock Company, Kiev

Key economic figures and forecasts

	2012	2013	2014	2015	2016	2017e	2018f
Nominal GDP (EUR bn)	135.2	135.3	99.9	81.4	82.3	95.2	99.1
Real GDP (% yoy)	0.2	0.0	-6.6	-9.9	2.2	2.0	3.0
Industrial output (% yoy)	-0.7	-4.3	-10.1	-13.0	2.4	4.0	4.0
Unemployment rate (avg, %)	8.2	7.8	9.7	9.5	9.0	9.0	8.5
Nominal industrial wages (% yoy)	14.8	7.9	6.0	20.5	23.6	15.0	10.0
Producer prices (avg, % yoy)	3.6	-0.1	17.1	36.0	20.5	20.0	6.9
Consumer prices (avg, % yoy)	0.6	-0.2	12.1	48.7	13.9	10.7	7.5
Consumer prices (eop, % yoy)	-0.2	0.5	24.9	43.3	12.4	9.0	6.0
General budget balance (% of GDP)	-3.8	-4.4	-4.9	-2.3	-3.0	-4.0	-3.0
Public debt (% of GDP)	37.1	40.7	52.9	72.6	76.5	78.4	73.0
Current account balance (% of GDP)	-8.2	-9.2	-3.5	-0.1	-3.7	-4.6	-3.8
Official FX reserves (EUR bn)	18.6	14.8	6.2	12.2	14.7	17.6	17.8
Gross foreign debt (% of GDP)	76.5	79.3	95.2	131.5	131.8	124.4	118.2
EUR/UAH (avg)	10.4	10.8	15.9	24.3	28.3	27.9	29.6
USD/UAH (avg)	8.1	8.2	12.0	22.0	25.6	27.1	28.2

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

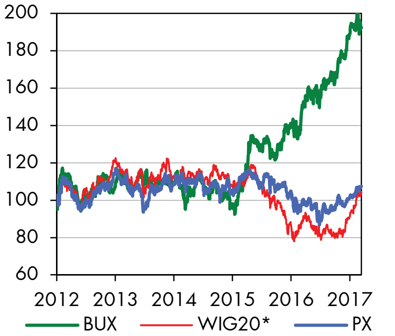
End of the flagpole has not been reached yet

- **Continued support from the expansive monetary policy of local central banks**
- **Many CEE indices feature moderate valuations**
- **Political uncertainty causing bouts of increased volatility, but no lasting negative impact**
- **Still no normalisation of political relations with Russia**

During the first quarter of 2017, most of the **CEE equity markets** (with the exception of Russia) showed clearly positive performance, in line with the development on most of the established stock exchanges. The upbeat international sentiment was due to further improvement in overall economic conditions in both Europe and the USA, along with good results from the reporting season in both regions. The sustained good sentiment was also supported by the prospects for a "phenomenal" tax reform, an infrastructure programme and the possible deregulation of US banks by the Trump administration. However, there is also plenty of potential for disappointments, given the high expectations and Trump's anti-free trade stance (discussions of import duties, border tax, etc.). Moreover, the future course of the US Fed may also move more towards centre stage again, as the interest rate hike in the USA in March could indicate that the Fed is accelerating more quickly than previously expected. Turning to central bank matters in Europe, we do not currently see any acute risk of "tapering", but we do believe that this issue will start to pop up as a talking point in the second half of this year at the latest. In terms of politics, the numerous elections (France etc.) could cause short-term interference, but our base-case scenario includes no major "accidents". Therefore, the persistently high liquidity as well as our expectations that economic development will continue to be solid form a supportive environment for European equities, which also includes the CEE region due to the close economic ties.

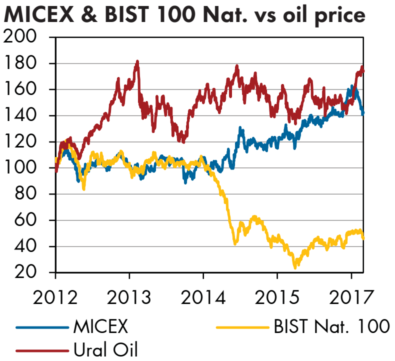
Since beginning of year, the **Russian MICEX index** has suffered significant setbacks. On the one hand, the reason for this was that hopes for a quick improvement in the icy relations between Russia and the USA were priced out again. On the other hand, the oil price was another major factor weighing on sentiment. Since mid-December, the price of crude has moved in a sideways range and was recently in danger of slipping lower, due to strong US reserve figures and a jump in US shale oil production. Nevertheless, thanks to the rather disciplined implementation of the production cut agreement between the OPEC countries and the non-OPEC countries, the supply and demand situation should shift in the direction of a moderately higher oil price later in the year, which should have a supportive effect for Russia's main stock index. Furthermore, the return of economic growth also suggests that Russian equity market performance will improve. At the same time, the central bank has leeway to continue lowering interest rates as inflation declines. In valuation terms, the MICEX is still cheap despite the strong per-

CE core equity indices



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

MICEX & BIST 100 Nat. vs oil price



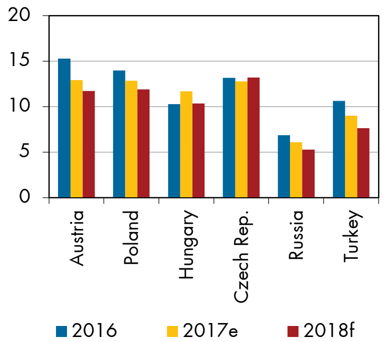
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Value matrix stock markets

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

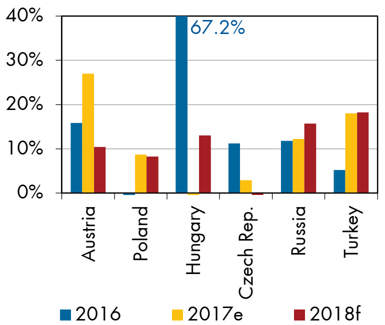
1 (4) denotes highly positive (negative) influence on the market. All factors are weighted equally. Assessment refers to a 3-month period. Figures in brackets reflect our former assessment.
Source: RBI/Raiffeisen RESEARCHSource: RBI/Raiffeisen RESEARCH

P/E ratios in comparison



Data based on adjusted figures
Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

Earnings growth



Data based on adjusted figures
Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

formance last year (e.g.: PER 2017e 6.1). The analyst consensus for projected earnings growth this year and next year is also very compelling. In light of the mostly positive factors, we expect gains for the MICEX over a horizon to June as well as over a one-year horizon. **Buy.**

The **Polish** equity index **WIG 30** developed extremely well in the first quarter of 2017, confirming its unchallenged top spot in the CE-3 performance ranking. Despite the persistent political uncertainties (manifested both internally and in the ongoing quarrels with the EU), the macroeconomic situation looks very robust, prompting us to revise our forecast for GDP growth in 2017 from 3.0% to 3.3%. The biggest drivers behind the price gains were commodity names, which benefited from the strong price gains for industrial metals (e.g. copper). Another factor was the political turnaround in relation to the forced conversion of CHF loans to the detriment of the banks, which now seems to have been discounted in share prices through the strong increases. However, this does not mean that the banking sector is completely off the hook. There is still uncertainty in this regard, due to the pending legislation on the repayment of the historical FX spreads which the Government is pushing and the increased capital requirements for FX loans, which will also be a burden in the future. In fundamental terms, earnings should rise by 8.7% in aggregate terms in 2017, while the resulting valuation (PER 2017e: 12.9) still looks moderate to us. Our view remains positive, but we do not anticipate any local outperformance due to the recent strong gains. **Buy.**

Despite the disappointing economic data for Q4 2016, the **Czech equity market** index PX was able to profit from the good performance on the international markets and has thus registered a handsome gain since the beginning of the year. The increase was borne by almost all of the equities represented in the index, although the financials sector – which is heavily weighted at 60.1% – did post slightly sub-average performance. At the moment, however, investors are focusing on the development of consumer prices: after hitting the central bank's target of 2% yoy in December, inflation continued to steadily rise in January (2.2% yoy) and in February (2.5% yoy). In its inflation report, the central bank forecasts further increases, significantly boosting the probability that the FX regime will be abandoned as early as mid-2017. Along with the exact timing of such a move, the reaction of EUR/CZK is another big unknown: for foreign investors, the appreciation of CZK which we expect to see could offer potential for additional gains, but one must also expect that the quick withdrawal of speculative capital will lead to higher volatility. The aggregate earnings growth estimated for the index in 2017 is currently 2.9%, which results in a still reasonably moderate valuation, with an expected PER of 12.8 for 2017e. **Buy.**

The **Hungarian** equity index **BUX** profited to a lesser degree from the good international performance and thus brought up the rear for the CE-3 markets. We view the macroeconomic conditions (2017e GDP growth of 3.2% and 2018f of 3.4%) as remaining very good, thanks to the latest economic stimulus measures

Stock market indicators

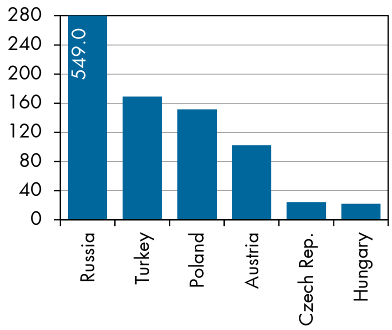
	Earnings growth			Price/earnings ratio			Dividend yield
	2016	2017e	2018f	2016	2017e	2018f	2017e
ATX	15.9%	27.0%	10.5%	15.3	12.9	11.7	3.1%
WIG 30	-0.9%	8.7%	8.3%	14.0	12.9	11.9	2.6%
BUX	67.2%	-12.1%	13.0%	10.3	11.7	10.3	2.7%
PX	11.3%	2.9%	-3.1%	13.2	12.8	13.2	5.0%
MICEX	11.8%	12.3%	15.8%	6.8	6.1	5.3	5.0%
BIST Nat. 100	5.3%	18.1%	18.3%	10.6	9.0	7.6	3.3%

Data based on adjusted figures; Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH which were recently passed (reduction of the social security contribution and increase in the minimum income). If one keeps in mind that 2018 is an election year, it is impossible to rule out further fiscal measures in 2017. Furthermore, we expect that the very expansive monetary policy of the Hungarian central bank will remain in place for a longer period. Due to the shift to earnings data adjusted to remove the effect of one-off items, the aggregate decline in earnings estimated for the index for 2017 amounts to 12.1%. Nevertheless, the resulting 2017e PER of 11.7 still looks moderate. We therefore remain optimistic about the further development of the Hungarian equity market. **Buy.**

After showing a favourable valuation in historical and international terms early this year, the Turkish **BIST 100** index posted strong gains since the beginning of the year, showing the largest gain among our markets with an increase of +14.5%. In doing so, the index punched through the line of 90,000 points on occasion, returning to peak levels last seen in 2013 and 2015. In light of the political and economic conditions, however, we see these gains as being overdone. During the third quarter of last year, the economy slipped into recession with GDP growth of -1.9% yoy. Although the leading indicators for January and February point to a better start to this year, economic conditions remain difficult with the weak currency and rising rates of inflation. This is even more so the case, as the central bank is attempting to reach an impossible balance between political dictates (no increases in interest rates) and the economic necessity of a tighter monetary policy. As a result of rising interest rates in the USA, investors will likely also focus more and more on the country's high level of external debt in USD (. Amidst these conditions, the anticipated earnings growth for 2017 of almost 18.1% yoy appears to be too high to us, and thus we expect to see analysts' forecasts lowered. All in all, the results of the last reporting season were better than consensus, but earnings still fell by 10% on aggregate. In combination with the latest increases in prices, this has resulted in a decline in valuations. With a PER of around 9, the equity index is in line with the 5-year average and is thus no longer very cheap compared to its historical track record. **Sell.**

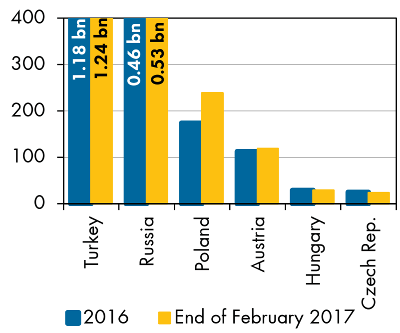
Financial analysts: Andreas Schiller, CFA, Christian Hinterwallner, CEFA, Judith Galter, CIIA, RBI Vienna

Market capitalisation overview



In EUR bn; cut off for data : 02/28/2017
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Avg. daily turnover (EUR mn)



Source: FESE, WFE, RBI/Raiffeisen RESEARCH

Index estimates

	15-Mar[1]	Jun.17	Sep.17	Dec.17	Mar.18	Recommendation
ATX	2,817	2,930	2,790	3,000	2,980	**BUY**
Performance		4.0%	-1.0%	6.5%	5.8%	
Range		2,500 - 3,200	2,500 - 3,200	2,500 - 3,300	2,700 - 3,300	
WIG 30	2,573	2,720	2,530	2,770	2,730	**BUY**
Performance		5.7%	-1.7%	7.6%	6.1%	
Range		2,300 - 3,000	2,300 - 3,000	2,300 - 3,000	2,500 - 3,000	
BUX	32,636	34,300	32,000	35,000	34,600	**BUY**
Performance		5.1%	-1.9%	7.2%	6.0%	
Range		29,400 - 36,800	28,800 - 36,800	28,800 - 37,500	31,100 - 37,500	
PX	979	1,030	960	1,050	1,030	**BUY**
Performance		5.2%	-2.0%	7.2%	5.2%	
Range		900 - 1,200	900 - 1,200	900 - 1,200	900 - 1,200	
MICEX	1,993	2,100	1,980	2,150	2,130	**BUY**
Performance		5.4%	-0.6%	7.9%	6.9%	
Range		1,800 - 2,300	1,800 - 2,300	1,800 - 2,400	1,900 - 2,400	
BIST Nat. 100	89,446	88,500	85,000	89,000	86,000	**SELL**
Performance		-1.1%	-5.0%	-0.5%	-3.9%	
Range		79,700 - 95,800	76,500 - 94,700	76,500 - 95,300	77,400 - 95,300	

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

Upward path to become bumpier

- **Economic conditions still improving**
- **Good prospects for earnings growth**
- **Valuations on the rise recently**

Value matrix*

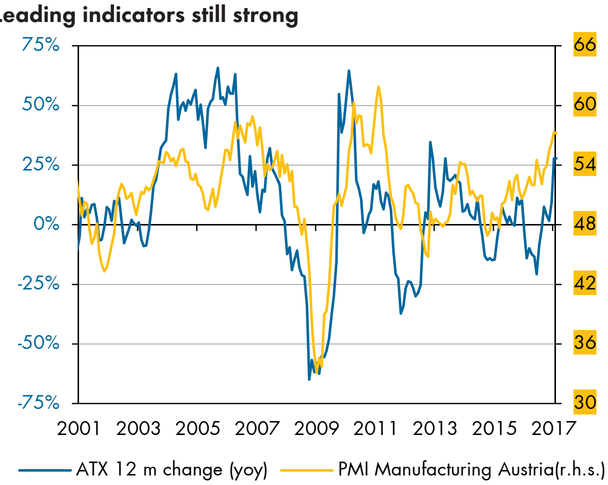
Domestic business activity		2	(2)
Exports	OECD excl. Eastern Europe	2	(2)
	Eastern Europe	2	(2)
	Asia	3	(3)
Corporate profits		1	(2)
Key sectors		2	(2)
Valuation		2	(2)
Interest rates / yields		1	(1)
Exchange rates		1	(1)
Foreign equity markets		2	(2)
European liquidity		1	(1)
Technical outlook		1	(2)

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

The performance of the **Austrian equity market** was good in the first quarter of 2017. Since the start of the year, the leading index has registered a gain of nearly 8%, ranking it among the strongest performers in the euro area. In terms of sectors, financials and basic industries led the way, whereas the real estate sector lagged behind. Support came from the broadly positive environment for equities and the generally robust conditions in the Austrian economy.

Taking a one-year perspective, we expect that the ATX will continue to rise, although the pace of the gains will slow and some bumpiness may be felt at times. This expectation is based on the **development of earnings and economic growth**, both of which we project will be strong. As regards the economy in particular, good signs have been seen recently. For instance, the generally reliable purchasing managers' index for the manufacturing sector came in at a level above 57 points twice recently. The last time this happened was 2011. There are also many signs of a favourable economic environment in the euro area and in the Eastern European economies, which are important sales markets for many companies listed in the ATX. In light of these favourable signs, we have raised our growth forecast for Austria. In terms of numbers, we now expect real GDP growth of 1.7% in 2017 (up from the previous estimate of 1.3%), driven by private consumption and investment activity. Additionally, exports and the construction industry should establish themselves as growth drivers this year as well. We also expect to see solid economic performance in Austria in 2018.

Leading indicators still strong



Source: Thomson Reuters, Markit, RBI/Raiffeisen RESEARCH

The ECB's **monetary policy** continues to be an important factor for the ATX. Fundamentally, the securities purchase programme underway until the end of the year should prove to be a factor of "technical" support. However, with an eye to the strong economic and inflation data, the debate regarding the "entry into the exit" from the programme should start as early as the summer months. Even though the ECB will begin to tighten its monetary policy

Sector structure of the ATX

Sector	Company	Weight
Financials	Erste Group, Raiffeisen Bank International, Uniqa, Vienna Insurance Group	30.8%
Industrials	Andritz, Österreichische Post, Wienerberger, Zumtobel	18.3%
Real Estate	BUWOG, CA Immobilien, conwert, Immofinanz	14.0%
Energy	OMV, SBO	16.1%
Materials	Lenzing, RHI, voestalpine	15.2%
Telecommunication	Telekom Austria	2.0%
Utilities	Verbund	2.6%
Consumer Discretionary	Do & Co	1.0%

Source: RBI/Raiffeisen RESEARCH, Raiffeisen Centrobank, Vienna Stock Exchange as 2018 approaches and announcements of this nature may weigh on the mood towards the end of the summer, it remains clear that monetary policy in the euro area continues to be very expansive. Accordingly, we only see some modest potential for increases in secondary market yields, which will keep **refinancing costs low** for companies and underline the relative attractiveness of the equity market compared to the bond segment. This is supported by the difference between the expected earnings yield over the next 12 months and the yield on 10-year Austrian government bonds, which is still substantial at almost 700 basis points.

However, from an absolute perspective, the **valuation of the ATX** has increased tangibly of late, which means that the Austrian leading index is no longer cheap. According to our estimates, the Austrian benchmark index will feature a price-earnings ratio of 12.9 for 2017. Nevertheless, its discount compared to its Western European counterparts has remained roughly unchanged.

We still expect support from the anticipated **development of corporate earnings**. Our aggregated adjusted estimates point to corporate earnings growth of 27% for the ATX in 2017.

Summary: All in all, the robust economic conditions in Austria and our projected path of earnings suggest that the **positive trend for the ATX will continue**. Nevertheless, since valuations have increased and some problems cannot be ruled out (e.g. in relation to announcement of tapering by the ECB), the path upwards is likely to be a bit bumpier from now on. **Buy.**

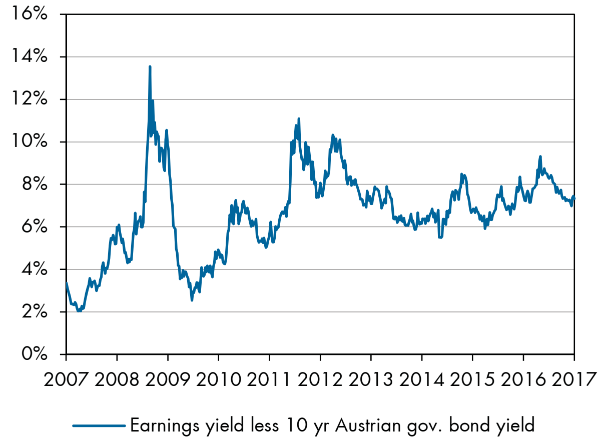
Financial analyst: Christian Hinterwallner, CEFA, RBI Vienna

Valuation and forecasts

	15-Mar[1]	Jun-17	Sep-17	Dec-17	Mar-18
ATX forecast	2,817	2,930	2,930	3,000	2,980
Expected performance		4.0%	-1.0%	6.5%	5.8%
Range		2,500 - 3,200	2,500 - 3,200	2,500 - 3,300	2,700 - 3,300

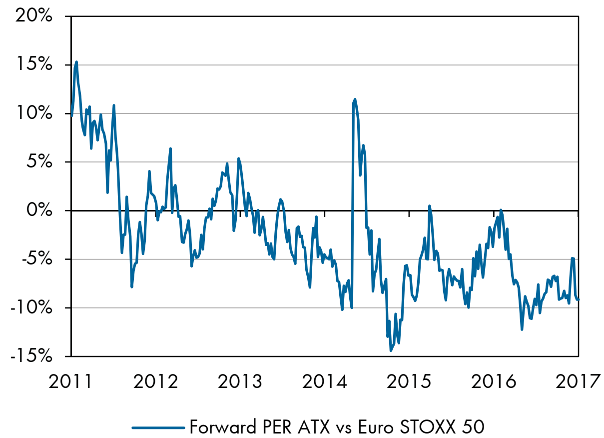
[1] 11:59 p.m. (CET)
Source: RBI/Raiffeisen RESEARCH

Equity risk premium still attractive



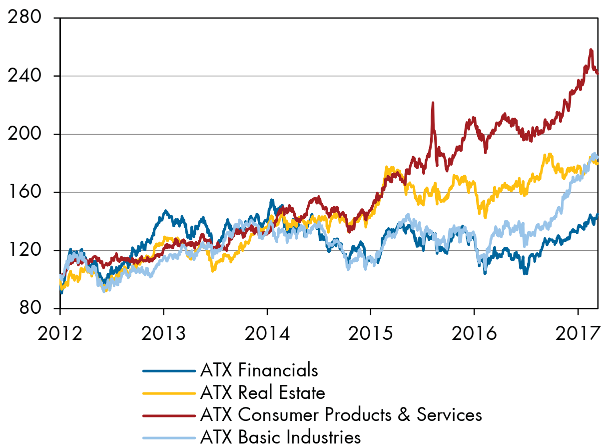
Source: Thomson Reuters, IBES, Raiffeisen RESEARCH

ATX trading at a discount



Source: Thomson Reuters, IBES, Raiffeisen RESEARCH

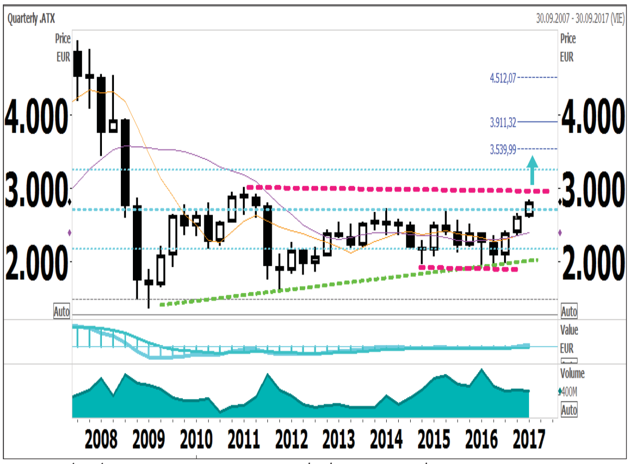
Sector indices in comparison



Rebased to 100
Source: Thomson Reuters, Raiffeisen RESEARCH

Stock Markets: Hausse keeps on

ATX



.ATX, 15/03/2017, 06:00 a.m. (CET), 5y high: 2,836, 5y low: 1,855
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

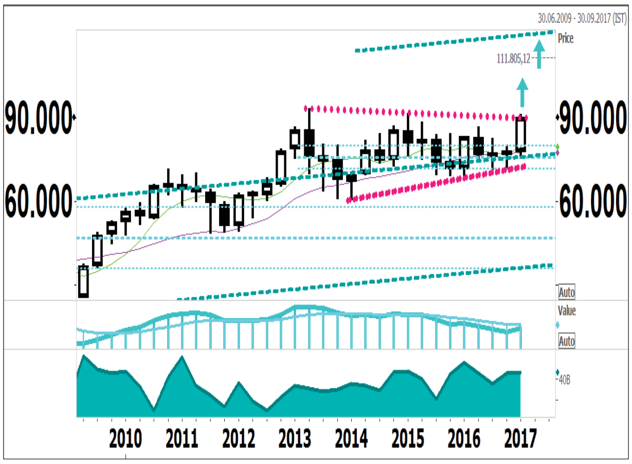
ATX

Last: 2,815 **BULLISH**

The target, as outlined in the December edition, had been 2,800. Still the advance should continue towards the major resistance 3,013, but also stretch towards 3,240, the upper Fibonacci band, 3,450 and 3,910. The stop has been trailed from 2,550 to 2,790 (-> 2,730), although a retracement towards the latter should be understood as a chance to buy at the cheap.

Long -> 3,013 – 3,240
Stop 2,790

BIST National 100



.XU100, 15/03/2017 06:15 a.m. CET, 5y high: 93,179, 5y-low: 54,810
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

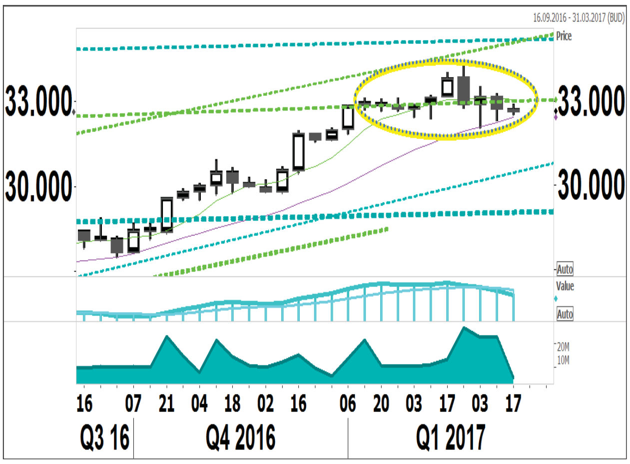
BIST National 100

Last: 89,445 **BULLISH**

The trend-channel's upper band had been tested out since a quarter now, but as the Symmetrical Triangle soon should get left behind topside at 90,230 headroom will stretch towards 93,400 – 95,775 – 113,020. The stop has been trailed from 70,000 to 88,550 (-> 83,130) accordingly.

Position:
Long -> 93,400 – 95,775…
Stop 88,550

BUX



.BUX, 15/03/2017, 07:30 a.m. (CET), 5y high 34,325, 5y low 15,687
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

BUX

Last: 32,636 **NEUTRAL**

Recently the target 33,705 had been hit, yet the trend-channel at 35,000 not anymore. The since forming congestion might either end with a top- or downside breakout. So, the next leg could be one towards 35,300 or else a correction towards 30,595 – 29,070. The latter would most likely be followed by an advance that might bring 51,400 within striking distance.

Position:
Buy 33,550 -> 35,300 – 3,114…
Sell 31,800 -> 30,595 – 29,070

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

BET

Last: 7,952 **BULLISH**

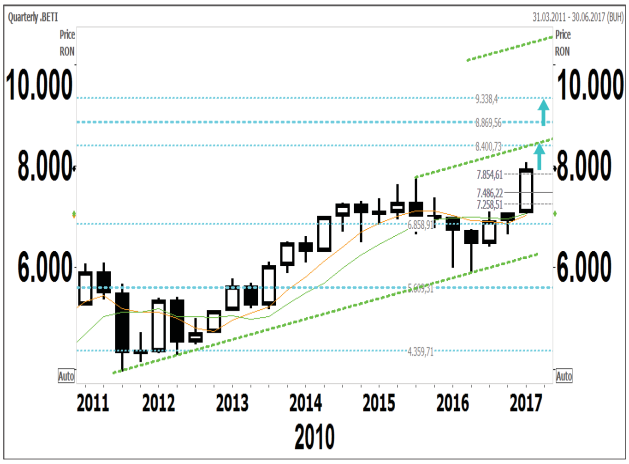
Just as had been expected it bottomed-up from 6,650 and advanced towards 7,761. Meanwhile the latter target has been crossed, and the next leg up should start shortly. This will be part of a bullish Flag pattern (weekly chart) and hit the major resistance at 8,400. This then should also get crossed clearing the path towards 8,845 – 9,338. Stop from 6,645 to 7,770.

Position:

Long -> 8,400 – 8,865…

Stop 7,770

BET



.BETI, 15/03/2017 08:10 a.m. CET, 5y high: 8,045, 5y-low: 4,304
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

MICEX

Last: 1,992 **BULLISH**

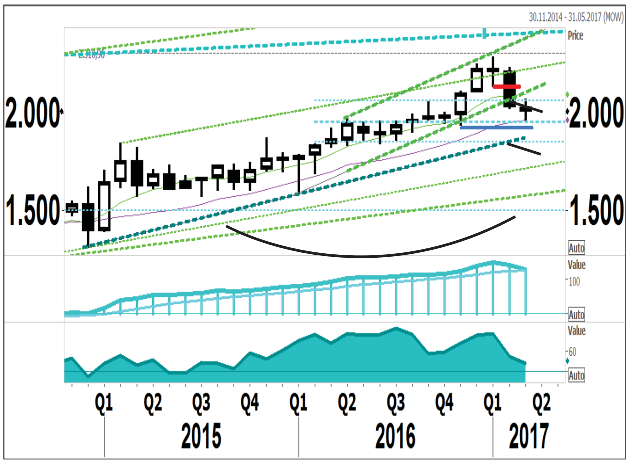
As our stop had been triggered at 2,150, the decline since has undershot the respective target 2,065. Now, there are first signs of a possible rebound that might stretch beyond 2,070 and towards even 2,100 in case 2,038 can get crossed shortly. As long as this is lacking another drop below 1,920 (-> 1,877 – 1,740) cannot be fully excluded.

Position:

Buy 2,038 -> 2,070 – 2,100

Stop 1,920

MICEX



.MCX, 15/03/2017 08:50 a.m. CET, 5y high: 2,285, 5y-low: 1,237
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

WIG 30

Last: 2,573 **~BULLISH**

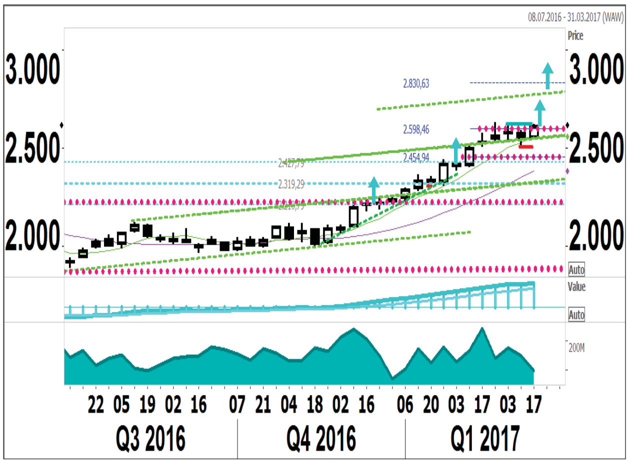
The buy-signal has been triggered at 2,250 finally and the respective target 2,427 has been crossed already. Shortly the current range-trading should end with a topside breakout. This means, once beyond 2,630 the path should be cleared towards 2,777 – 2,830, i.e. a new all-time high should get marked and current one get crossed. The latter currently is 2,782.44 and had been marked on 28.04.2015.

Position:

Long -> 2,777 – 2,830

Stop 2,560

WIG 30



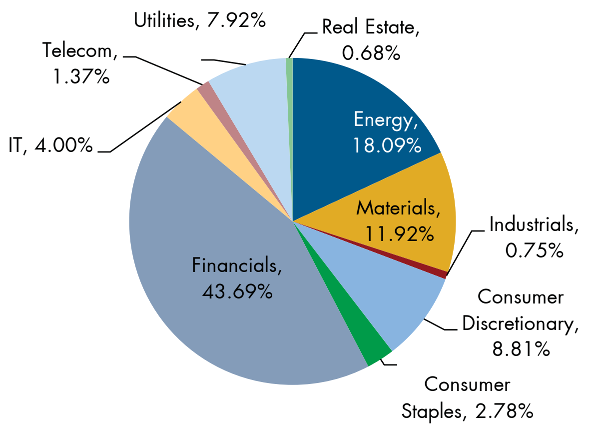
.WIG30, 15/03/2017 09:50 a.m. CET, 5y high: 2,775, 5y-low: 1,879
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Financial analyst: Robert Schittler, CEFA, RBI Vienna

Sector weightings in comparison

Sector weightings Poland, WIG 30

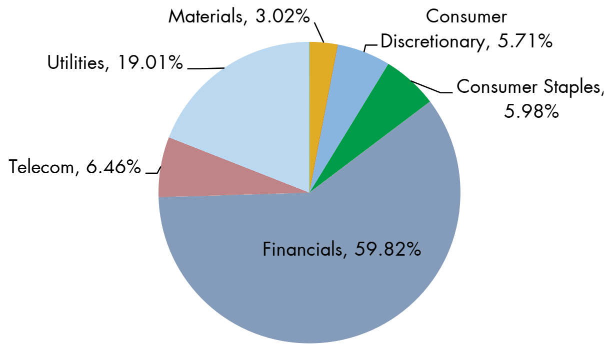
Dom. market cap.: EUR 151.45 bn (Source: Bloomberg; 02/28/2017)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Czech Republic, PX

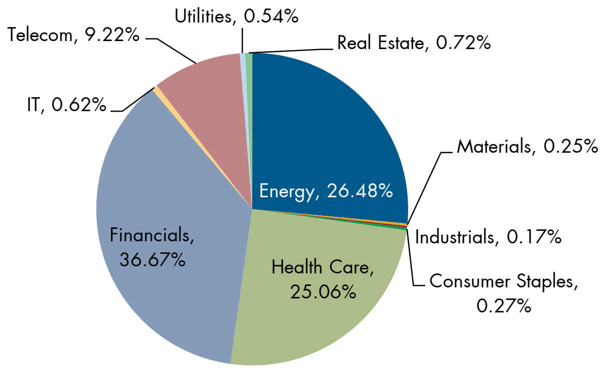
Dom. market cap.: EUR 24.43 bn (Source: Bloomberg; 02/28/2017)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Hungary, BUX

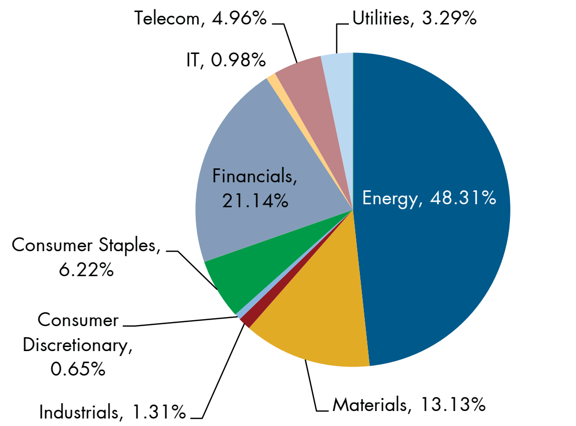
Dom. market cap.: EUR 21.97 bn (Source: Bloomberg; 02/28/2017)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Russia, MICEX

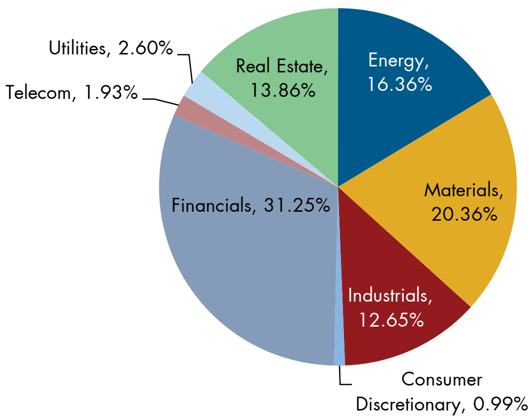
Dom. market cap.: EUR 549.03 bn (Source: Bloomberg; 02/28/2017)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Austria, ATX

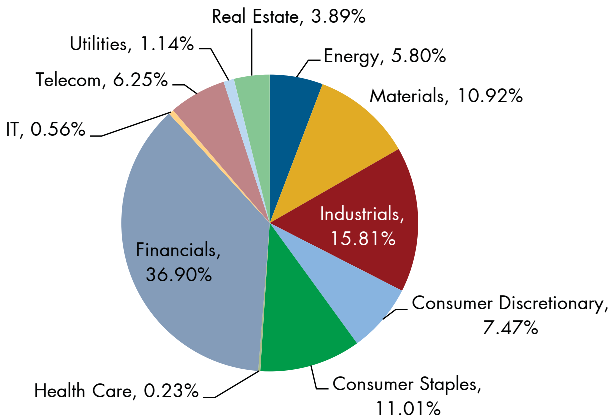
Dom. market cap.: EUR 102.35 bn (Source: Bloomberg; 02/28/2017)



Quelle: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Turkey, BIST National 100

Dom. market cap.: EUR 169.17 bn (Source: Bloomberg; 02/28/2017)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

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

Oil & Gas: We select high yields covered by free cash flow

- **LUKoil is our top-pick as it offers high dividend yields fully covered by growing FCF**
- **Novatek's new strategy could reveal a large upside potential**
- **We do not expect any double-digit dividend yields among our Russian oil & gas sector coverage**

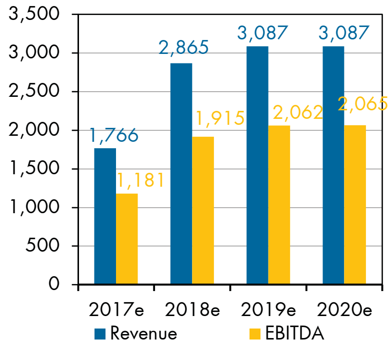
Russian oil & gas stocks do not look undervalued as they are trading not far from their average levels before the crisis (2013 – EV/EBITDA 4.5x). Nevertheless, we should take into account that some of these companies are still trading at sizable discounts to their peers, while they demonstrate qualitative growth (LUKoil and Gazprom Neft 3.7x in terms of EV/EBITDA 17e). Gazprom Neft probably deserves some discount due to low liquidity (free float below 4%), but we see no compelling reason why LUKoil should also trade with a comparable discount. We believe that LUKoil could offer the highest dividend yield among our coverage. Moreover, we have no doubt that the payments would be covered by free cash flow. In the mid-term LUKoil's operating and financial results should be supported by a large greenfield project (Filanovsky), which has tax benefits. In 2017e Filanovsky should add USD 1.1 bn to EBITDA and up to USD 2.0 bn on full capacity utilisation. In 2019e we expect a boost of free cash flow driven by gas assets in Uzbekistan, which could add over USD 1 bn to free cash flow.

We also see upside in Novatek's new strategy. This year the market is expected to be focused on the launch of the Yamal LNG project and especially on the sales price, which we believe could be a positive trigger: in our opinion, the agreement has a floor level price. Not of less importance could be the new strategy, the implementation of which could make Novatek one of the largest LNG market players. We believe that in case of a capex reduction per unit of LNG, the NPV of Arctic 2 LNG could be positive, with USD 5 per depositary receipts. Moreover, we should not rule out a mid-term positive effect on EBITDA in case of refining capacity expansion.

This year we expect a significant cut in the yields of our original dividend stories, while the highest yields should be provided by the ordinary shares of LUKoil and Gazprom. However, of these two, we believe only LUKoil is capable of covering its payments by free cash flow. We do not consider the yield of Tatneft's preferred shares as attractive as those of Gazprom's ordinary shares or those of LUKoil and Gazprom Neft, offering comparable or even higher yields. Surgutneftegas preferred shares could be attractive, despite a low 2016e yield, as we see limited downside risks at current levels.

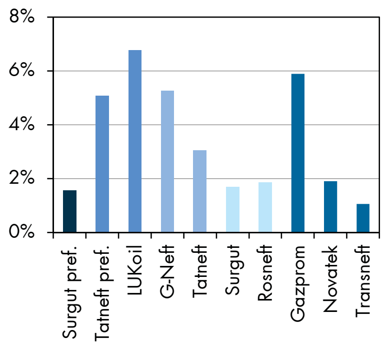
Financial analysts: Andrey Polischuk

Filanovskiy field financials forecasts*



** USD mn*
Source: Raiffeisen Centrobank estimates

Russian Oil&Gas dividend yields*

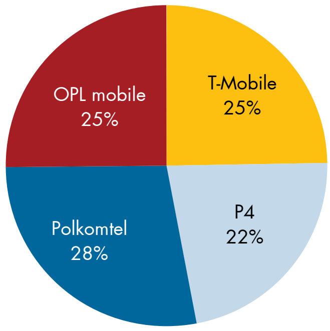


** 2016, %*
Source: Raiffeisen Centrobank estimates

Telecommunication: Adjusting to new regulations and competition

- **After a cyclical recovery we highlight the attractiveness of undervalued stories in the TMT sector**
- **In Poland the TMT market remains tough but valuations in our universe are now encouraging**
- **The Russian market is supported by improving macro and chances for lower competition**

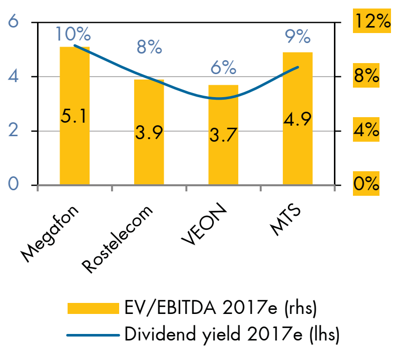
Mobile market shares in Poland



Source: UKE, companies

The Polish market remains one of the most competitive in the CEE but valuations are cheap. In Poland we highlight Orange Polska whose share was recently punished by investors after it suspended dividend. As the price performed poorly both before dividend cut and following that event, we would play on sentiment reversal toward the stock. The offensive in the mobile business after the acquisition of costly spectrum is gradually unwinding and a similar snowball effect with increasing FTTH coverage is likely to take place in wireline, where market share may be acquired at the expense of CA-TV operators. We expect that the Polish mobile market will remain very competitive in 2017e as T-Mobile and Orange Polska are pressed to monetise the recently purchased LTE bands. We therefore keep our HOLD recommendation for Cyfrowy Polsat in view of the intensifying rivalry in LTE and FTTH broadband in 2017-2018e. We fear that rural areas where Cyfrowy Polsat dominates in mobile broadband may be subject to new LTE offers by Orange and T-Mobile. Despite lower upside following the share price recovery of Asseco Poland in the last three months, we maintain our positive view in anticipation of a public sector revival and thanks to strong foreign operations. We like the dividend yield of Asseco Poland in a range of 5-6%, which stays high above the peer group in the IT business and the strong balance sheet that implies chances for further M&As.

Comparison of Russian telecoms



Source: Raiffeisen Centrobank estimates

With improving macro, strengthening RUB and decreasing key rate, and sector-specific factors, like expectations of lower competition in the cellular market, and lower impact of data storage regulation, Russian TMT generally looks attractive even despite the recent rally. We view MegaFon as the best combination of value (dividend yield is better vs. the main peers) and growth after the acquisition of Mail.Ru Group. VEON (formerly known as VimpelCom Ltd) restored meaningful dividend payout, and we now see Telenor stake overhang as the single reason for VEON's discount and expect it to narrow once it is gone. Rostelecom largely missed the 2016 year-end rally, likely due to underfinancing from the state budget, which, we think, should not be the case in FY 17e, but after the recent management change the risk of value-dilutive acquisition of Tele2 Russia looks more tangible than before. Yandex and Mail.Ru Group look fairly valued to us, with the former having a short-term positive trigger – we think that Google may finally comply with the antimonopoly ruling, as it already proposed the amicable agreement, which should help Yandex stabilize its search share.

Financial analysts: Dominik Niszcz, Sergey Libin

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.

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Detailed information on sensitivity analyses (procedure for checking the stability of potential assumptions made in the context of financial analyses) is available under: www.raiffeisenresearch.com/sensitivity_analysis

Disclosure of circumstances and interests which may jeopardise the objectivity of RBI: www.raiffeisenresearch.com/disclosuresobjectivity

The distribution of all recommendations relating to the 12 months prior to the publications date (column A), as well as the distribution of recommendations in the context of which services of investment firms set out in Sections A (investment services and activities) and B (ancillary services) of Annex I of Directive 2014/65/EU of the European Parliament and of the Council ("special services") have been provided in the past 12 months (column B).

Investment recommendation	Column A Basis: All recommendations for all financial instruments (last 12 months)	Column B Basis: Recommendations for financial instruments of all issuers, for which special services were rendered in the last 12 months
Buy recommendations	46.6%	61.5%
Hold recommendations	35.9%	38.5%
Sell recommendations	17.5%	0.0%

Detailed information on recommendations concerning financial instruments or issuers disseminated during a period of 12 month prior to this publication (acc. to Art. 4 (1) i) Commission Delegated Regulation (EU) 2016/958 of 9.3.2016) is available under: https://raiffeisenresearch.com/web/rbi-research-portal/recommendation_history

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Recommendations history for 12 months

Nitrogenmuvek Zrt	Date of recommendation	Recommendation
NITROG 7.875% due 2020	11/04/2016	Buy
NITROG 7.875% due 2021	28/04/2016	Buy
NITROG 7.875% due 2022	14/07/2016	Buy
NITROG 7.875% due 2023	27/09/2016	Buy
NITROG 7.875% due 2024	04/11/2016	Buy

HALYK SAVINGS BANK-KAZAK	Date of recommendation	Recommendation
CESDRA 4.125% due 2019	13/03/2017	Buy

Evraz Group SA	Date of recommendation	Recommendation
EVRAZ 6.75% due 2022	28/04/2016	Sell
EVRAZ 6.75% due 2023	14/07/2016	Sell
EVRAZ 6.75% due 2024	04/11/2016	Buy

Bonds

Local currency government bonds: Recommendations concerning financial instruments or issuers (disseminated during a period of 12 month prior to this publication), which differ from recommendations made in this publication*

Date	CZ 2y	CZ 5y	CZ 10y	CZK	HU 2y	HU 5y	HU 10y	HUF	PL 2y	PL 5y	PL 10y	PLN	RO 2y	RO 5y	RO 10y	RON	RU 2y	RU 5y	RU 10y	RUB	TR 2y	TR 5y	TR 10y	TRY
23/02/2016	H	–	B	H	H	–	B	H	H	–	H	H	H	–	H	H	H	–	H	B	H	–	H	B
24/03/2016	I	–	H	I	I	–	I	I	I	–	I	S	I	–	I	I	I	–	I	S	S	–	S	S
26/04/2016	I	–	I	I	I	–	I	I	I	–	I	H	I	–	I	I	I	–	I	I	H	–	H	I
31/05/2016	I	–	I	I	I	–	I	I	I	–	I	I	I	–	I	I	B	–	B	H	B	–	B	H
20/06/2016	I	–	I	I	I	–	I	I	I	–	I	I	I	–	I	I	I	–	I	I	I	–	I	B
21/07/2016	I	–	I	I	I	–	I	I	I	–	I	I	I	–	I	I	I	–	I	I	S	–	S	S
27/07/2016	I	–	I	I	B	–	I	I	I	–	I	I	I	–	I	I	I	–	I	I	I	–	I	I
25/08/2016	I	–	I	I	I	–	I	I	I	–	I	I	I	–	I	I	I	–	I	I	I	–	I	I
23/09/2016	I	–	I	I	H	–	H	I	I	–	I	I	I	–	I	I	I	–	I	I	I	–	I	H
21/10/2016	I	–	I	I	I	–	I	I	I	–	I	I	I	–	I	I	I	–	I	S	I	–	I	I
24/11/2016	I	–	I	I	I	–	I	I	I	–	I	I	I	–	I	I	H	–	H	H	I	–	I	I
15/12/2016	I	–	I	I	I	–	B	I	I	–	B	I	I	–	I	I	B	–	I	I	I	–	I	I
24/01/2017	I	–	I	I	I	–	I	I	I	–	I	I	I	–	I	I	H	–	I	I	H	–	H	I
24/02/2017	I	–	I	I	I	–	I	I	I	–	H	I	I	–	I	I	S	–	S	S	I	–	I	I
15/03/2017	I	–	B	B	I	–	H	I	I	–	I	I	I	–	I	I	H	–	H	H	I	–	S	I

** recommendations based on absolute expected performance in LCY; B: Buy, H: Hold, S: Sell, I: no change, - no coverage*

Sovereign Eurobonds: Recommendations concerning financial instruments or issuers (disseminated during a period of 12 month prior to this publication), which differ from recommendations made in this publication*

Date	BG EUR	BG USD	HR EUR	HR USD	CZ EUR	CZ USD	HU EUR	HU USD	KZ EUR	KZ USD	LT EUR	LT USD	PL EUR	PL USD	RO EUR	RO USD
17/03/2016	H	–	H	H	H	–	B	B	–	B	H	H	B	B	H	H
24/03/2016	I	–	I	I	I	–	H	H	–	I	I	I	I	I	I	I
29/03/2016	B	–	I	I	I	–	I	I	–	I	B	I	I	H	I	I
20/04/2016	I	–	I	I	I	–	I	I	–	I	I	I	I	I	I	I
26/04/2016	H	–	I	I	I	–	I	I	–	H	H	I	S	S	I	I
13/05/2016	I	–	I	I	I	–	I	I	–	I	I	I	I	I	I	I
20/06/2016	B	–	S	S	I	–	B	B	–	I	I	I	I	I	S	S
21/07/2016	I	–	I	I	I	–	I	I	–	I	I	I	I	I	I	I
27/07/2016	H	–	I	I	I	–	H	H	–	B	I	I	I	I	H	H
25/08/2016	I	–	I	I	I	–	I	I	–	I	I	I	H	H	I	I
26/08/2016	I	–	I	I	I	–	I	I	–	H	I	I	I	I	I	I
26/09/2016	B	–	B	S	I	–	I	I	–	I	I	I	B	I	I	I
21/10/2016	I	–	I	I	I	–	I	I	–	I	I	I	I	I	I	I
28/11/2016	H	–	H	I	I	–	I	I	–	B	I	I	H	I	B	I
15/12/2016	I	–	I	H	I	–	I	I	–	I	I	B	I	I	H	I
24/01/2017	I	–	I	I	I	–	I	I	–	H	B	I	I	I	I	I
24/02/2017	I	–	B	I	I	–	I	I	–	I	I	I	I	I	I	I
15/03/2017	I	–	I	I	I	–	I	I	–	I	H	H	I	I	B	B

** recommendations based on absolute expected performance, i.e. expected spread change; B: Buy, H: Hold, S: Sell, I: no change, - no coverage*

Sovereign Eurobonds: Recommendations concerning financial instruments or issuers (disseminated during a period of 12 month prior to this publication), which differ from recommendations made in this publication*

Date	RU EUR	RU USD	RS EUR	RS USD	SK EUR	SK USD	SI EUR	SI USD	TR EUR	TR USD	UA EUR	UA USD	BY EUR	BY USD	MK EUR	MK USD
17/03/2016	H	H	–	H	H	–	B	–	B	B	–	S	-	H	B	–
24/03/2016	I	I	–	I	I	–	I	–	I	I	–	I	-	I	I	–
29/03/2016	I	I	–	I	I	–	I	–	I	I	–	H	-	I	I	–
20/04/2016	I	I	–	I	I	–	I	–	I	I	–	I	-	I	H	–
26/04/2016	I	I	–	B	I	–	I	–	I	I	–	I	-	I	I	–
13/05/2016	I	I	–	I	I	–	I	B	H	H	–	I	-	I	I	–
20/06/2016	I	I	–	I	I	–	I	I	B	I	–	I	-	I	I	–
21/07/2016	I	I	–	I	I	–	I	I	S	S	–	I	-	I	I	–
27/07/2016	B	B	–	I	S	–	I	I	I	I	–	I	-	I	B	–
25/08/2016	I	I	–	I	I	–	I	I	I	I	–	I	-	I	I	–
26/08/2016	H	H	–	H	H	–	H	I	I	I	–	I	-	I	I	–
26/09/2016	I	I	–	B	I	–	I	I	H	H	–	I	-	I	I	–
21/10/2016	I	I	–	I	I	–	I	I	B	B	–	B	-	S	I	–
28/11/2016	S	S	–	I	I	–	I	H	H	H	–	H	-	I	I	–
15/12/2016	H	I	–	I	I	–	I	I	I	I	–	S	-	I	H	–
24/01/2017	I	I	–	H	I	–	I	I	I	I	–	I	-	H	I	–
24/02/2017	I	I	–	I	I	–	I	I	I	I	–	I	-	I	I	–
15/03/2017	I	H	–	I	I	–	I	I	I	I	–	I	-	I	I	–

** recommendations based on absolute expected performance, i.e. expected spread change; B: Buy, H: Hold, S: Sell, I: no change, - no coverage*

Equities

Asseco Poland: 5y high: PLN 62 (19/04/2016), 5y low: PLN 39.2 (12/10/2012)
Recommendation history

	Rating	Target Price	Prev. day's close	Upside
08/02/2017	Buy	66.00	56.75	16.3%
20/10/2016	Buy	66.00	52.23	26.4%
21/07/2016	Buy	70.00	56.96	22.9%
05/04/2016	Buy	74.00	59.84	23.7%
10/03/2016	Susp.			
12/11/2015	Buy	72.00	55.80	29.0%
31/03/2015	Buy	70.00	59.50	17.6%

Orange Polska: 5y high: PLN 17.25 (18/06/2012), 5y low: PLN 4.64 (10/03/2017)
Recommendation history

	Rating	Target Price	Prev. day's close	Upside
08/02/2017	Buy	6.50	5.20	25.0%
15/03/2017	Buy	5.80	4.73	22.6%
20/10/2016	Hold	6.30	5.59	12.7%
21/07/2016	Hold	5.80	5.24	10.7%
11/02/2016	Hold	7.40	6.50	13.8%
28/07/2015	Buy	9.60	8.06	19.1%
24/07/2015	Hold	9.30	8.20	13.4%

Cyfrowy Polsat: 5y high: PLN 27.8 (06/10/2014), 5y low: PLN 13 (05/06/2012)
Recommendation history

	Rating	Target Price	Prev. day's close	Upside
08/02/2017	Hold	27.00	24.25	11.3%
20/10/2016	Hold	27.00	23.58	14.5%
21/07/2016	Buy	27.90	23.56	18.4%
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%

MegaFon: 5y high: USD 38.5 (22/10/2013), 5y low: USD 8.3 (21/11/2016)
Recommendation history

	Rating	Target Price	Prev. day's close	Upside
08/02/2017	Buy	13.30	10.80	23.1%
21/07/2016	Hold	12.00	10.70	12.1%
10/03/2016	Hold	12.70	12.60	0.8%
09/11/2015	Hold	14.20	13.40	6.0%

Mail.Ru Group: 5y high: USD 44.6 (31/12/2013), 5y low: USD 13.25 (16/12/2014)
Recommendation history

	Rating	Target Price	Prev. day's close	Upside
08/02/2017	Hold	18.80	17.94	4.8%
28/10/2016	Hold	18.50	16.40	12.8%
25/08/2016	Buy	20.00	16.75	19.4%
29/06/2016	Hold	20.00	18.05	10.8%
29/09/2015	Hold	17.40	17.40	0.0%

Rostelecom: 5y high: RUB 151.97 (16/03/2012), 5y low: RUB 73.61 (25/04/2014)
Recommendation history

	Rating	Target Price	Prev. day's close	Upside
10/03/2017	Hold	89.00	75.50	17.9%
08/02/2017	Buy	103.60	84.71	22.3%
16/08/2016	Hold	100.00	85.85	16.5%
29/03/2016	Buy	114.40	94.05	21.6%
22/12/2015	Buy	110.00	89.45	23.0%

VEON: 5y high: USD 14.55 (30/10/2013), 5y low: USD 2.9 (20/01/2016)
Recommendation history

	Rating	Target Price	Prev. day's close	Upside
08/02/2017	Buy	6.20	4.12	50.5%
26/09/2016	Buy	6.00	3.54	69.5%
19/04/2016	Buy	6.20	3.85	61.0%
24/11/2015	Buy	6.10	3.43	77.8%
16/07/2015	Buy	6.20	4.93	25.8%

Yandex: 5y high: USD 44.22 (09/01/2014), 5y low: USD 10.18 (24/08/2015)
Recommendation history

	Rating	Target Price	Prev. day's close	Upside
08/02/2017	Hold	23.50	23.15	1.5%
17/11/2016	Buy	22.50	17.61	27.8%
21/07/2016	Hold	24.40	21.39	14.1%
02/03/2016	Hold	13.80	13.58	1.7%
12/10/2015	Buy	15.90	12.37	28.5%
14/08/2015	Hold	14.00	12.77	9.6%
20/04/2015	Sell	16.60	20.59	-19.4%

LUKoil: 5y high: RUB 3575 (03/01/2017), 5y low: RUB 1590.8 (17/05/2012)
Recommendation history

	Rating	Target Price	Prev. day's close	Upside
14/03/2017	Buy	4,150.00	3,051.00	36.0%
06/12/2016	Buy	4,100.00	3,300.00	24.2%
12/09/2016	Hold	3,150.00	3,060.50	2.9%
11/04/2016	Buy	3,298.00	2,777.50	18.7%
24/09/2015	Buy	2,773.00	2,203.00	25.9%

Gazprom Neft: 5y high: RUB 234 (22/02/2017), 5y low: RUB 112.19 (19/06/2013)
Recommendation history

	Rating	Target Price	Prev. day's close	Upside
14/03/2017	Hold	224.00	206.50	8.5%
10/01/2017	Hold	237.00	228.50	3.7%
29/11/2016	Hold	225.00	193.25	16.4%
11/04/2016	Buy	192.00	149.15	28.7%

Novatek: 5y high: RUB 799.4 (13/12/2016), 5y low: RUB 288.91 (30/05/2012)
Recommendation history

	Rating	Target Price	Prev. day's close	Upside
14/03/2017	Buy	900.00	721.80	24.7%
06/12/2016	Hold	810.00	760.00	6.6%
09/08/2016	Buy	780.00	648.10	20.4%
11/04/2016	Buy	710.00	584.40	21.5%
04/04/2016	Buy	710.00	590.00	20.3%
25/08/2015	Hold	645.00	567.20	13.7%
12/08/2015	Hold	645.00	592.50	8.9%
30/03/2015	Buy	567.00	416.50	36.1%

Gazprom: 5y high: RUB 199.2 (15/03/2012), 5y low: RUB 107.23 (24/06/2013)
Recommendation history

	Rating	Target Price	Prev. day's close	Upside
14/03/2017	Sell	110.00	129.93	-15.3%
12/09/2016	Hold	155.00	138.54	11.9%
11/04/2016	Reduce	135.00	145.70	-7.3%
24/11/2015	Hold	155.00	152.00	2.0%
21/08/2015	Hold	155.00	142.64	8.7%

Tatneft: 5y high: RUB 446.4 (04/01/2017), 5y low: RUB 149.42 (18/05/2012)
Recommendation history

	Rating	Target Price	Prev. day's close	Upside
14/03/2017	Reduce	320.00	363.40	-11.9%
12/09/2016	Sell	287.00	320.80	-10.5%
11/04/2016	Sell	294.00	359.15	-18.1%
09/04/2015	Hold	337.00	303.00	11.2%

Surgutneftegas: 5y high: RUB 40.645 (07/03/2016), 5y low: RUB 23.52 (30/12/2014)
Recommendation history

	Rating	Target Price	Prev. day's close	Upside
14/03/2017	Buy	46.00	28.35	62.3%
12/09/2016	Buy	44.00	31.30	40.6%
11/04/2016	Hold	40.00	37.60	6.4%
03/04/2015	Sell	21.30	37.00	-42.4%

Coverage universe recommendation overview

	buy	hold	reduce	sell	suspended	UR
Universe	41	69	7	3	4	1
Universe %	33%	55%	6%	2%	3%	1%
Investment banking services	28	36	3	1	1	0
Investment banking services %	41%	52%	4%	1%	1%	0%

Source: Raiffeisen Centrobank, rounding differences may occur

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