

Central & Eastern European Strategy

4th quarter 2017

Economy reaching its peak

- Inflation to remain low
- High yielding bonds with most potential
- Exchange rates well supported
- Encouraging year-end expected for stocks



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Central & Eastern European Strategy

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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 rouble
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

mmav	month moving average
mom	month on month
MP	Monetary policy
MPC	Monetary policy council
O/N	overnight rate
PER	Price Earnings Ratio
pp	percentage points
PMI	Purchasing Manager Index
PPI	Producer Price Index
QE	Quantitative 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)

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)

High point in economic activity on the horizon

- Strong dynamics in CE and SEE countries, with further upward revisions
- Rate-hiking cycle in some CE countries and potential for rate cuts in Russia
- Strong euro not having much impact on the main Eastern currencies

History repeats itself. As in the first quarter, dynamics in the CE and most of the SEE economies accelerated even more. One of key factors in the growth story in almost all of the countries in this region is private consumption, which is driven by vigorous employment growth and the related above-average increases in wages. In Romania and Hungary, nominal wages actually grew at double-digit rates in 2017 (mainly due to increases in the minimum wage). In the Czech Republic, Poland, Slovakia, and Russia wage growth ranging from 4% to 5.5% was recorded, and in light of the modest annual average inflation rates between 1% and 2% in 2017, this results in significant gains in real wages. With little change in the savings ratio, private consumption will also continue to be the key driver in the economic cycle in 2018 as well. In some countries, investments are also making a significant contribution to growth (e.g. Hungary), while others still have potential for catching up (e.g. Poland). Net exports, on the other hand, are having a dampening effect on growth, due to the strong demand for imports. In Austria, growth was supported by all of the GDP components. Since H2 2015, investment in plant and equipment has supported the upswing, along with net exports. Consequently, we have again upgraded our GDP estimates for 2017 and 2018 for several countries.

At the same time, we did not see any need to change the projections for inflation. For the first time in the last three years, inflation rates are all in positive territory in 2017, but we are not expecting any major acceleration in 2018. On average for the CE and SEE countries, inflation will be between 2% and 2.5% next year. This is enough, however, for monetary policy to react in some cases. We expect to see monetary policy tightening and rate hikes in the Czech Republic, Romania, and finally in Poland. In Russia, we project that inflation will settle in near the target of 4%, allowing the Russian central bank adequate leeway for rate cuts until the summer of 2018. All in all, however, the ECB's monetary policy will continue to keep a lid on interest rates in the EU countries, and outside of the euro area as well.

Impact on currencies

We see the relative movement of interest rates vis-à-vis the euro area as being supportive for CZK and PLN in the two quarters ahead. We anticipate mild depreciation for the Croatian kuna due to seasonal factors, and for HUF and RON due to the very expansive monetary policy. Turning to the Russian rouble, we expect stabilisation versus USD at around RUB 58, since the Russian central bank will not allow any substantial appreciation, even if the oil price rises.

Impact on the bond and equity markets

The low yields in the euro area continue to have impacts on the CE capital markets, and the SEE capital markets as well to some extent. Accordingly, we only project very moderate variations in yields from Poland to Romania. In Russia, there may be a consolidation following the recent slide in yields.

We take a positive view of the CEE equity market through to the end of the year, thanks to good prospects for earnings, in conjunction with favourable monetary and economic conditions. The ATX should also continue on its clear upward trend.

Financial analyst: Peter Brezinschek, RBI Vienna

CEE: Market strategy¹

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

¹ LCY bonds: based on absolute performance in LCY

Eurobonds: based on expected spread change
FX vs. EUR

Recommendation horizon: end 4th 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

Recommendations¹ – stock markets

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

Real GDP (% yoy)

Countries	2016	2017e	Consensus	2018f	Consensus	2019f	Consensus
Poland	2.7	4.0	3.8	3.2	3.3	2.8	3.1
Hungary	2.0	3.8	3.7	3.6	3.3	3.2	2.9
Czech Rep.	2.3	4.3	3.2	3.4	3.0	3.1	2.5
Slovakia	3.3	3.3	3.3	4.0	3.6	4.0	3.6
Slovenia	3.1	4.8	3.6	3.5	3.0	2.6	2.4
CE	2.6	4.0	3.6	3.4	3.3	3.0	3.0
Croatia	3.0	2.9	2.7	2.3	2.6	2.5	2.6
Bulgaria	3.4	4.0	3.5	3.7	3.2	3.6	3.2
Romania	4.8	5.7	5.0	4.0	3.5	3.5	3.5
Serbia	2.8	1.8	2.8	2.5	3.3	2.5	3.3
Bosnia a. H.	3.1	2.5	3.0	3.0	3.3	3.5	3.3
Albania	3.5	4.0	3.6	4.0	3.9	4.0	4.1
Kosovo	3.6	3.5	3.8	3.5	3.9	3.5	4.0
SEE	4.0	4.4	4.1	3.5	3.3	3.3	3.3
Russia	-0.2	1.2	1.6	1.5	1.6	1.5	1.8
Ukraine	2.3	1.5	2.0	3.0	2.7	3.0	3.0
Belarus	-2.6	1.5	0.7	1.5	1.5	2.0	1.8
EE	-0.1	1.2	1.6	1.6	1.7	1.6	1.9
Turkey	3.2	5.0	4.3	2.5	3.3	3.5	3.5
Austria	1.5	2.8	2.1	2.2	1.7	1.4	1.6
Germany	1.9	2.1	2.1	1.8	1.8	1.6	1.5
Euro area	1.8	2.2	2.1	2.2	1.8	1.7	1.5
USA	1.5	2.4	2.2	2.2	2.3	1.8	2.1

Source: national sources, RBI/Raiffeisen RESEARCH

Consumer prices (avg, % yoy)

Countries	2016	2017e	2018f	2019f
Poland	-0.6	1.8	2.4	2.8
Hungary	0.2	2.5	3.4	3.4
Czech Rep.	0.7	2.5	2.1	2.0
Slovakia	-0.5	1.1	2.0	2.2
Slovenia	-0.2	1.6	2.1	2.4
CE	-0.2	2.0	2.4	2.6
Croatia	-1.1	1.2	1.4	2.0
Bulgaria	-0.8	1.8	2.6	3.1
Romania	-1.5	1.1	3.7	3.2
Serbia	1.2	3.1	2.9	4.0
Bosnia a. H.	-1.1	1.5	1.5	2.0
Albania	1.3	2.2	2.7	3.5
Kosovo	0.3	1.5	2.0	2.5
SEE	-0.9	1.5	3.0	3.0
Russia	7.1	4.0	4.5	4.3
Ukraine	13.9	13.6	7.8	6.1
Belarus	12.0	8.5	8.5	8.0
EE	7.7	4.8	4.8	4.5
Turkey	7.8	11.0	9.0	8.0
Austria	1.0	2.0	2.1	2.1
Germany	0.4	1.7	2.2	2.2
Euro area	0.2	1.5	1.3	1.7
USA	1.2	2.2	2.5	2.5

Source: national sources, RBI/Raiffeisen RESEARCH

Current account balance (% of GDP)

Countries	2016	2017e	2018f	2019f
Poland	-0.3	-0.2	-0.9	-1.4
Hungary	5.4	3.2	2.9	2.7
Czech Rep.	1.1	1.0	1.1	1.1
Slovakia	-0.6	-0.6	0.3	0.9
Slovenia	5.2	5.0	4.8	4.6
CE	0.7	0.5	0.2	-0.3
Croatia	2.6	3.7	2.2	2.5
Bulgaria	3.8	3.4	0.9	1.1
Romania	-2.4	-3.6	-4.0	-4.2
Serbia	-3.9	-5.0	-4.3	-4.1
Bosnia a. H.	-4.4	-6.0	-6.2	-6.6
Albania	-9.1	-9.2	-9.4	-7.9
Kosovo	-8.3	-9.5	-7.5	-5.7
SEE	-1.4	-2.2	-2.9	-2.8
Russia	1.7	4.7	5.3	5.4
Ukraine	-4.1	-4.0	-3.6	-3.9
Belarus	-3.6	-3.5	-3.1	-3.0
EE	1.2	3.9	4.5	4.5
Turkey	-3.8	-4.5	-4.2	-3.8
Austria	1.7	2.1	2.3	2.2
Germany	8.3	7.5	7.5	7.0
Euro area	3.5	3.0	2.8	2.5
USA	-2.4	-2.5	-2.5	-2.5

Source: national sources, RBI/Raiffeisen RESEARCH

General budget balance (% of GDP)

Countries	2016	2017e	2018f	2019f
Poland	-2.4	-2.0	-2.6	-2.8
Hungary	-2.0	-2.5	-3.0	-3.0
Czech Rep.	0.6	-0.2	0.0	0.0
Slovakia	-1.7	-1.5	-1.5	-1.5
Slovenia	-1.8	-1.3	-1.1	-1.0
CE	-1.6	-1.6	-1.9	-2.0
Croatia	-0.8	-1.2	-1.6	-1.5
Bulgaria	1.6	-0.5	-1.0	-1.5
Romania	-3.0	-3.0	-4.0	-3.0
Serbia	-1.3	-1.3	-1.8	-1.8
Bosnia a. H.	1.2	1.0	-0.5	0.5
Albania	-2.5	-2.0	-1.5	-1.0
Kosovo	-1.6	-1.8	-1.8	-1.5
SEE	-1.6	-2.0	-2.7	-2.2
Russia	-3.7	-2.5	-2.0	-1.0
Ukraine	-2.9	-3.2	-2.7	-2.4
Belarus	1.5	1.0	1.0	0.5
EE	-3.5	-2.4	-1.9	-1.0
Turkey	-1.4	-2.5	-2.0	-2.0
Austria	-1.6	-0.9	-0.7	-0.6
Germany	0.8	0.5	0.3	0.5
Euro area	-1.5	-1.4	-1.4	-1.3
USA	-3.2	-3.5	-2.6	-3.0

Source: national sources, RBI/Raiffeisen RESEARCH

Public debt (% of GDP)

Countries	2016	2017e	2018f	2019f
Poland	54.3	53.8	53.9	54.2
Hungary	73.9	73.2	72.4	71.7
Czech Rep.	37.9	36.2	34.9	34.7
Slovakia	51.9	52.0	50.9	49.5
Slovenia	79.7	75.4	73.5	71.2
CE	54.5	53.6	53.0	52.8
Croatia	83.7	82.4	81.1	78.2
Bulgaria	29.1	25.0	26.0	29.0
Romania	37.6	37.1	38.3	38.9
Serbia	71.6	62.8	60.5	60.0
Bosnia a. H.	40.4	41.0	41.5	42.5
Albania	71.0	69.0	65.0	63.0
Kosovo	14.5	17.5	19.0	19.0
SEE	47.2	45.3	45.5	45.8
Russia	13.5	14.0	14.5	14.0
Ukraine	76.1	71.4	65.9	62.3
Belarus	39.9	39.0	41.5	41.2
EE	18.5	18.6	18.8	18.1
Turkey	32.0	33.0	32.0	32.0
Austria	84.6	80.2	77.9	75.6
Germany	68.3	65.8	63.3	61.3
Euro area	89.2	88.2	87.0	86.0
USA	105.5	105.6	104.9	104.7

Source: national sources, RBI/Raiffeisen RESEARCH

Gross foreign debt (% of GDP)

Countries	2016	2017e	2018f	2019f
Poland	74.5	73.2	72.2	66.2
Hungary	98.3	88.0	81.8	76.1
Czech Rep.	73.9	89.9	80.3	74.0
Slovakia	88.8	89.6	86.2	82.9
Slovenia	110.9	103.5	102.0	100.5
CE	66.7	68.8	65.3	60.0
Croatia	90.9	84.1	81.3	77.9
Bulgaria	73.3	68.7	65.7	62.4
Romania	54.6	52.3	52.1	52.4
Serbia	74.2	70.3	66.7	64.7
Bosnia a. H.	54.4	55.1	54.3	52.1
Albania	71.7	67.4	64.7	59.8
Kosovo	34.8	34.8	37.5	35.4
SEE	64.6	61.2	59.7	58.4
Russia	39.0	29.4	24.8	21.5
Ukraine	121.7	112.7	106.9	101.6
Belarus	79.3	73.0	69.9	68.5
EE	45.8	35.9	31.2	27.8
Turkey	47.5	48.5	42.8	40.8
Austria	n.v.	n.v.	n.v.	n.v.
Germany	n.v.	n.v.	n.v.	n.v.
Euro area	126.4	124.9	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	2016	2017e	2018f	2019f
Poland	4.36	4.26	4.15	4.15
Hungary	311	309	312	315
Czech Rep.	27.0	26.4	25.3	25.0
Slovakia	Euro	Euro	Euro	Euro
Slovenia	Euro	Euro	Euro	Euro
Croatia	7.53	7.45	7.46	7.48
Bulgaria	1.96	1.96	1.96	1.96
Romania	4.49	4.57	4.63	4.61
Serbia	123	122	123	125
Bosnia a. H.	1.96	1.96	1.96	1.96
Albania	137	134	135	136
Kosovo	Euro	Euro	Euro	Euro
Russia	74.1	66.4	70.5	77.3
Ukraine	28.3	30.2	33.2	37.0
Belarus	2.20	2.19	2.40	2.73
Turkey	3.34	4.06	4.08	4.53
Austria	Euro	Euro	Euro	Euro
Germany	Euro	Euro	Euro	Euro
Euro area	Euro	Euro	Euro	Euro
USA	1.11	1.14	1.20	1.28

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Ratings¹

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+	Baa1	A-
Croatia	BB	Ba2	BB
Bulgaria	BB+	Baa2	BBB-
Romania	BBB-	Baa3	BBB-
Serbia	BB-	Ba3	BB-
Bosnia a. H.	B	B3	NR
Albania	B+	B1	NR
Kosovo	NR	NR	NR
Russia	BB+	Ba1	BBB-
Ukraine	B-	Caa2	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

Exchange rate forecast

Countries	21-Sep ¹	Dec-17	Mar-18	Sep-18
vs EUR				
Poland	4.27	4.20	4.15	4.10
Hungary	310.43	310.0	310.0	315.0
Czech R.	26.07	25.7	25.3	25.1
Croatia	7.48	7.50	7.45	7.45
Romania	4.60	4.65	4.60	4.65
Serbia	119.22	121.5	122.5	124.0
Albania	133.90	134.0	134.0	135.0

vs USD

Russia	58.1	58.0	58.0	60.0
Ukraine	26.23	27.00	28.00	27.50
Belarus	1.94	1.96	1.97	2.00
Turkey	3.51	3.40	3.30	3.45

EUR/USD	1.19	1.18	1.15	1.22
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¹ 5:00 p.m. (CET)

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

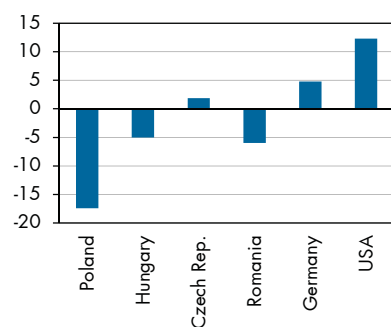
2y LCY yield forecast

Countries	21-Sep ¹	Dec-17	Mar-18	Sep-18
Poland	1.81	1.9	2.1	2.3
Hungary*	0.53	0.5	0.6	0.8
Czech R.	-0.23	0.0	0.2	0.9
Croatia	0.98	1.2	1.2	1.6
Romania*	1.95	2.1	2.4	3.0
Russia	7.57	7.8	7.6	7.5
Turkey	11.49	11.2	10.5	9.7
Austria	-0.58	-0.7	-0.7	-0.5
Germany	-0.72	-0.7	-0.7	-0.6
USA	1.45	1.6	1.6	1.9

¹ 5:00 p.m. (CET); * 3y LCY yields

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

Key interest rate forecast

Countries	21-Sep ¹	Dec-17	Mar-18	Sep-18
Poland	1.50	1.50	1.50	1.75
Hungary	0.90	0.90	0.90	0.90
Czech R.	0.25	0.50	0.75	1.00
Romania	1.75	1.75	2.00	2.25
Russia	8.50	8.25	8.00	7.50
Turkey	8.00	8.00	8.00	8.00

Euro area	0.00	0.00	0.00	0.00
USA	1.25	1.50	1.50	2.00

¹ 5:00 p.m. (CET)

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

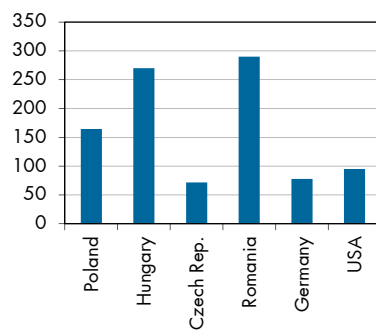
10y LCY yield forecast

Countries	21-Sep ¹	Dec-17	Mar-18	Sep-18
Poland	3.37	3.2	3.4	3.5
Hungary	2.75	2.7	2.8	3.1
Czech R.	1.18	1.2	1.2	1.6
Croatia	2.54	2.6	2.6	2.7
Romania	3.96	3.9	4.1	4.6
Russia	7.59	7.9	7.8	7.7
Turkey	10.65	10.3	10.0	9.7
Austria	0.63	0.7	0.7	1.1
Germany	0.45	0.5	0.5	0.8
USA	2.28	2.4	2.4	2.7

¹ 5:00 p.m. (CET)

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Yield structure



bp-spread between 10y and 3m maturity

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

3m money market rate forecast

Countries	21-Sep ¹	Dec-17	Mar-18	Sep-18
Poland	1.73	1.73	1.73	2.08
Hungary	0.05	0.05	0.05	0.05
Czech R.	0.46	0.60	0.90	1.10
Croatia	0.59	0.60	0.60	0.80
Romania	1.06	1.10	1.30	2.20
Russia	8.70	8.85	8.60	8.10
Turkey	13.12	12.00	11.50	10.30

Euro area	-0.33	-0.35	-0.35	-0.25
USA	1.32	1.60	1.60	2.10

¹ 5:00 p.m. (CET)

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

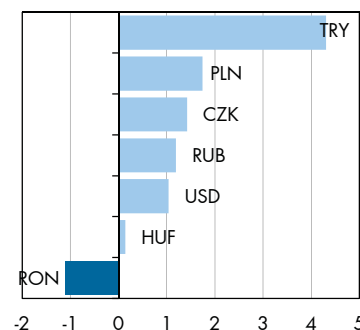
Spreads 10y LCY bonds over Bund

Countries	21-Sep ¹	Dec-17	Mar-18	Sep-18
Poland	292	270	290	270
Hungary	230	220	230	225
Czech R.	73	70	70	80
Croatia	209	210	210	190
Romania	351	340	360	380
Russia	714	740	730	695
Turkey	1020	980	950	890
Austria	18	20	20	25
USA	183	190	190	190

¹ 5:00 p.m. (CET); all values in bp

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

LCY changes vs EUR (% qoq)¹



¹ forecasts for 31 Mar-2017 in comparison to 15 Dec-2016

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Stock market indicators

	Earnings growth		Price/earnings ratio	
	17e	18f	17e	18f
ATX	25.9%	7.1%	14.3	13.3
WIG 30	17.3%	5.1%	13.1	12.4
BUX	0.1%	3.0%	11.4	11.1
PX	11.8%	-9.0%	12.8	14.0
MICEX	5.8%	15.1%	6.7	5.8
BIST Nat. 100	38.8%	12.6%	8.8	7.8

Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

Stock market forecasts

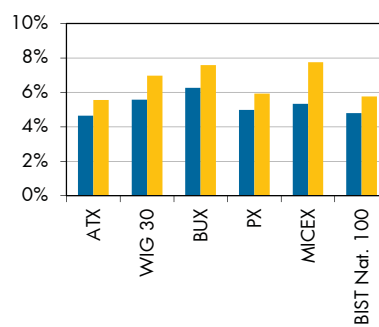
	Index estimates			
	21-Sep ¹	Dec-17	Mar-18	Sep-18
ATX	3,297	3,450	3,500	3,480
MICEX	2,860	3,020	3,150	3,060
WIG 30	38,109	40,500	42,500	41,000
BUX	1,048	1,100	1,140	1,110
PX	2,060	2,170	2,200	2,220
BIST Nat. 100	104,001	109,000	112,000	110,000

¹ 11:59 p.m. (CET)

in local currency

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Expected index performance



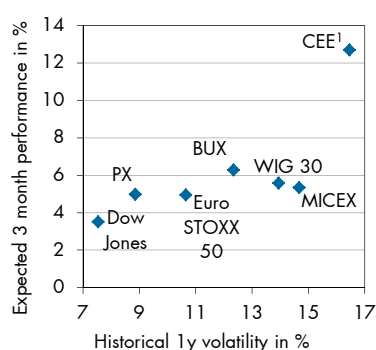
■ Dec-17 ■ Sep-18

Source: RBI/Raiffeisen RESEARCH

Strong performance by CEE markets

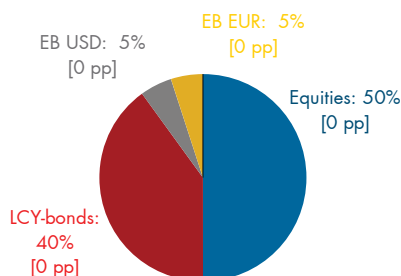
- Overweight CEE equity markets versus global equities
- Outperformance also expected for CEE bonds
- Equity segment preferred over bonds in Q4

Risk-return (%)



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

CEE portfolio weightings Q4 2017



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

As expected, during the third quarter the Western European equity markets suffered a significant correction (which we used to switch our "Sell" recommendation for the DAX et al. to a "Buy" during the quarter), whereas no such opportunity to boost purchases was experienced in Eastern Europe. The equity markets there have not only outperformed their Western European counterparts since the beginning of the year (with the exception of the MICEX), they also posted strong gains in the third quarter. As we are **bullish** on the established equity markets **for the fourth quarter** as well, this holds true all the more so for the **equity markets in CEE**. We actually believe that this region may produce more **outperformance in this segment (overweight CEE vs. global equities)**: Central and Eastern Europe continue to profit from above-average economic growth and historically still very low interest rates, in conjunction with more favourable valuations than Western Europe. With regard to Russia, we still have a slightly more optimistic opinion about the path of the oil price, suggesting better performance there. The situation is similar for the **CEE bond segment, which we also recommend strongly overweighting in a global portfolio**. Looking at the **bond segment** (local currency), our **top pick** is still **Russia**. The **Central European (CE) currencies are also not without their attraction in a global portfolio**: although yield levels in this region are not very exciting (but still better than for the euro), some of the CE currencies (such as PLN, for example) certainly have the potential to appreciate versus EUR, and any increases in yields will probably be limited, which keeps the price risk manageable. However, the CE currencies in particular are strongly oriented towards the euro (in contrast to the classical Emerging Market currencies, which tend to be more oriented towards the US dollar); if EUR strengthening (= USD weakening) proceeds more quickly than we anticipate, EUR investors will be much less exposed to currency risk (i.e. depreciation) in these CE currencies than in other Emerging Market currencies, which are more strongly oriented towards USD (which is not the case for TRY and RUB, but with these currencies the high interest income at least compensates for the additional currency risk).

Financial analyst: Valentin Hofstätter, CFA, RBI Vienna

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	8.8	8.4	7.4	3.6	-7.2	-6.3	2.4	0.0	1.5	-2.0	2.0	3.0
Hungary	11.2	11.0	17.2	17.8	9.4	11.6	3.7	1.6	3.9	4.4	6.6	8.7
Poland	15.2	13.0	29.9	26.1	0.6	1.3	5.3	1.8	3.0	0.0	3.7	4.4
Romania	15.1	15.2	9.5	10.8	13.2	13.6	1.9	0.1	-1.1	0.1	1.2	1.6
Russia	16.0	10.0	-15.8	-8.6	-5.3	3.0	13.3	2.3	1.8	9.5	-2.5	8.6
Turkey	18.7	13.6	17.5	32.6	-3.5	8.5	10.3	2.4	-4.3	7.9	-4.9	6.8
Croatia	7.7	7.3	4.5	3.5	1.2	1.4	2.2	2.6	7.9	6.8	6.7	6.9
CEE	11.5	-	6.7	-	-	-	3.2	-	4.1	-	-	-

¹ MSCI indices

² Three months volatility annualised

³ Five-year annual return

LCY...local currency

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

High yielding markets still the most promising

- Russian government bonds probably offer yield-hungry investors the best opportunities
- Hungary and Poland still seem to have a bit of potential
- Short-term risks prompt us to underweight Czech Republic over the near term

As in the previous quarter, we see the greatest potential in Russian RUB government bonds, and in our opinion this is particularly true for a longer-term investment horizon. Although over the short run possible declines in prices may undermine the overall performance, as the investment horizon lengthens the considerable yield advantage should generate profits, despite the ongoing rate cuts. Furthermore, our **Buy recommendation is based on the assumption that the exchange rate of the rouble will remain mostly stable** through to end-2017. In the CEE high yield segment, we would also opt for a (mildly) overweight position on Turkey, but we would also like to stress the speculative nature of this recommendation. As the end of the year approaches, the Turkish central bank may begin to ease monetary conditions somewhat, although **this will require careful action so that the lira does not lose support**. In the CE/SEE region, we take a short-term neutral position on Romania due to the most recent positive news, especially with regard to the fiscal outlook for 2017, whereas we have **mild overweight positions on Hungary and Poland**. Although valuations in Hungary are tight, the central bank recently helped to improve conditions for bonds even more. Over the short term, we finance all of this via sales of Czech CZK government bonds (taking profit), as we expect to see a period of higher volatility in the weeks ahead. Some foreign investors may find it hard to roll over their positions, due to the lack of supply of new CZK bills. We would point out the short-term nature of our recommendation, as the **long-term strategy of investing in an appreciating CZK** certainly remains intact, due to the fundamental undervaluation of the Czech currency.

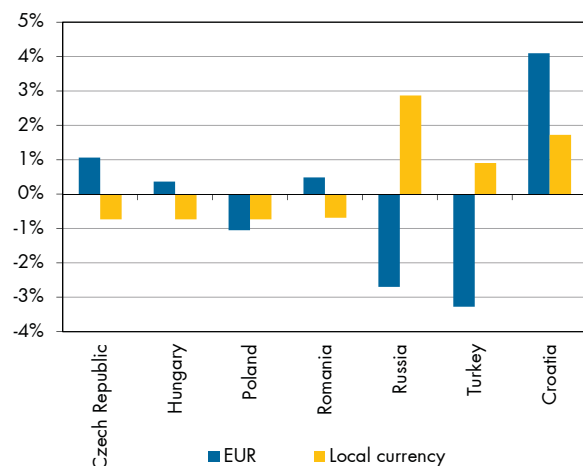
Financial analyst: Stephn Imre; RBI Vienna

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	15.0%	20.0%	-5.0%
Hungary	21.0%	20.0%	1.0%
Poland	46.0%	45.0%	1.0%
Romania	5.0%	5.0%	0.0%
Russia	7.0%	5.0%	2.0%
Turkey	6.0%	5.0%	1.0%
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

Expected bond market performance (%)

Countries	3m		6m		9m		12m	
	EUR	LCY	EUR	LCY	EUR	LCY	EUR	LCY
Czech Republic	2.2	0.8	4.3	1.3	2.5	-0.1	2.2	-1.4
Hungary	0.3	0.4	0.2	0.3	-0.3	-0.3	-2.0	-0.4
Poland	4.0	2.2	4.2	1.2	4.9	1.9	5.9	1.7
Romania	-0.3	0.8	0.5	0.6	-0.5	-0.4	-1.8	-0.7
Russia	1.2	0.4	6.4	3.0	4.2	5.1	0.7	7.2
Turkey	9.1	4.8	19.3	9.2	15.8	13.1	15.6	16.3

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

Russia remains overweighted

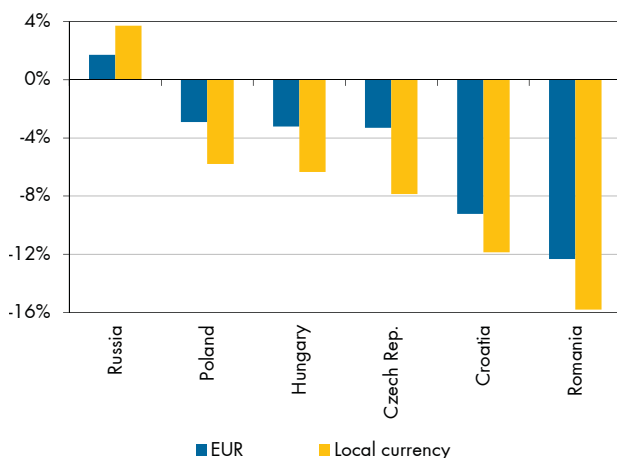
- Positive overall conditions should support CEE equity markets
- Overweight of Russia justified by expectations that economic recovery and oil price stabilisation will continue
- Czech Republic underweighted due to some negative factors

Portfolio weightings: stocks*

	Portfolio	Benchmark	Difference
Czech Republic	6.0%	8.0%	-2.0%
Hungary	7.0%	7.0%	0.0%
Poland	25.0%	25.0%	0.0%
Russia	37.0%	35.0%	2.0%
Turkey	25.0%	25.0%	0.0%
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

For the final quarter of 2017 we keep the **overweighting of Russia** at two percentage points. Even though we do not believe that sanctions will be lifted in the foreseeable future, Russian equities should benefit from the economic recovery and a rising oil price in Q4 2017. Recently, there have been more and more reports that cartel's November meeting may decide to extend the agreement between the OPEC and non-OPEC countries to limit oil production until the spring of 2018. Furthermore, the central bank may continue its rate-cutting cycle, due to falling inflation, and consequently, we expect to see a rate cut of 75 basis points in the fourth quarter. Considering the strong earnings growth on an aggregate basis (2018f: 15.1 %), the valuation of the Russian market also looks attractive, with a 2018f PER of 5.8.

On the other hand, we have an **underweight position on the Czech equity market**, again by two percentage points. However, this is not due to the economic situation in the country, which is looking very robust and has a broad basis of support. We believe that there is limited potential for the strong dynamics to continue rising, as a result of the very high level of employment. Another mildly negative factor is the Czech central bank's cycle of rate increases which started in early August, and we anticipate another rate hike of 25 basis points in the fourth quarter. Additionally, consensus expectations for 2018 are pointing to a decline in aggregate earnings, and with a 2018f PER of 14.0 we would just barely describe this market's valuation as being moderate. While we do not project a setback in the fourth quarter, which is traditionally strong in seasonal terms, we only expect performance to be subdued, due to the aforementioned, negative factors.

Financial analyst: Andreas Schiller, CFA, RBI Vienna

Expected stock market performance (%)

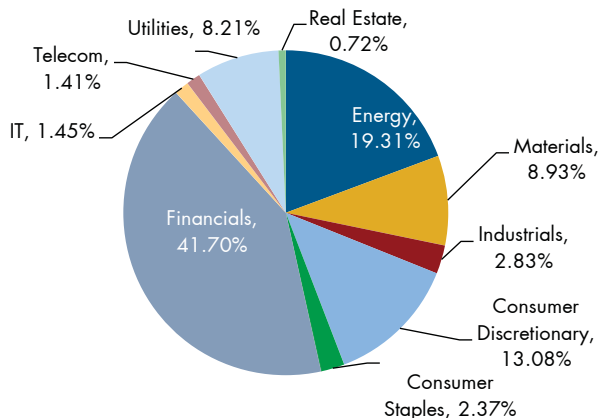
Countries	3m		6m		9m		12m	
	EUR	LCY	EUR	LCY	EUR	LCY	EUR	LCY
Czech Republic	6.5	5.0	12.1	8.8	12.6	9.8	10.0	5.9
Hungary	6.4	6.3	11.7	11.5	12.2	12.0	6.0	7.6
Poland	7.4	5.6	13.4	10.1	15.2	11.9	11.5	7.0
Russia	6.6	5.3	10.9	6.8	3.8	4.4	1.9	7.8
Turkey	5.3	4.8	18.5	7.7	10.9	8.2	5.0	5.8

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

Sector weightings in comparison

Sector weightings Poland, WIG 30

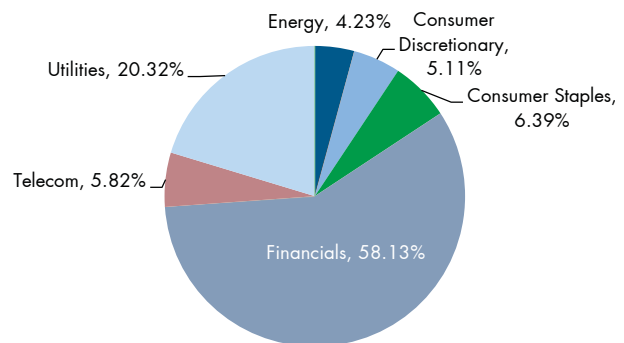
Dom. market cap.: EUR 165.67 bn (Source: Bloomberg; 21/09/2017)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Czech Republic, PX

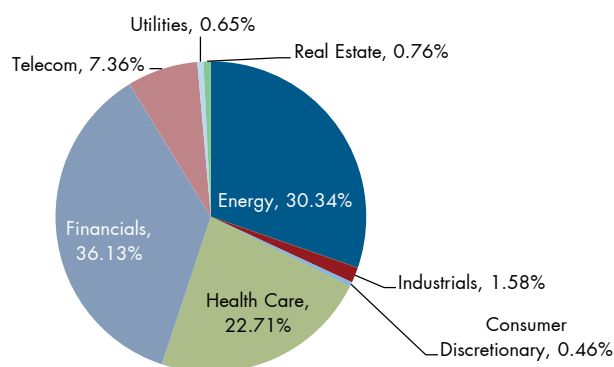
Dom. market cap.: EUR 26.58 bn (Source: Bloomberg; 21/09/2017)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Hungary, BUX

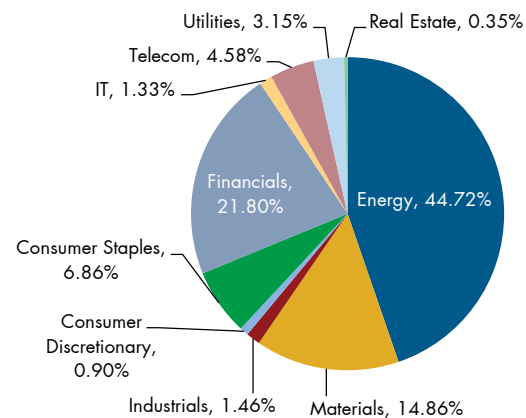
Dom. market cap.: EUR 25.21 bn (Source: Bloomberg; 21/09/2017)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Russia, MICEX

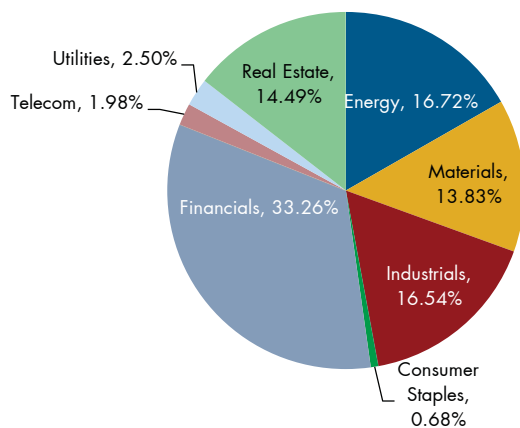
Dom. market cap.: EUR 482.44 bn (Source: Bloomberg; 21/09/2017)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Austria, ATX

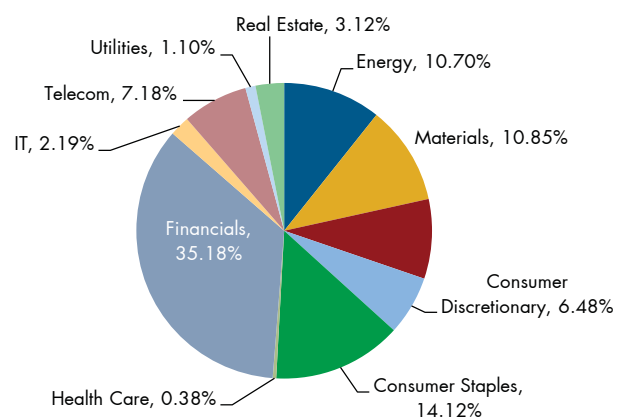
Dom. market cap.: EUR 122.89 bn (Source: Bloomberg; 21/09/2017)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Turkey, BIST National 100

Dom. market cap.: EUR 187.58 bn (Source: Bloomberg; 21/09/2017)

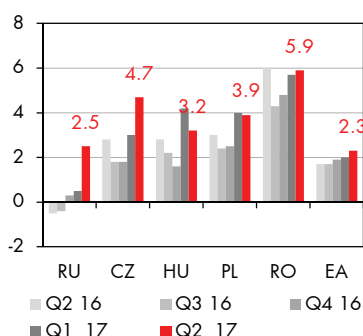


Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

CEE back to 3% growth!

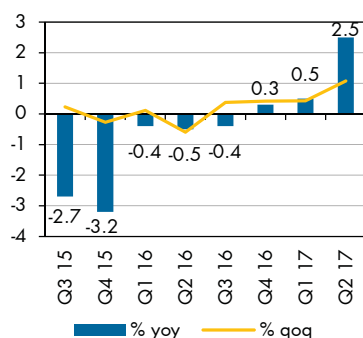
- Recovery of Russian growth rate propels CEE growth back to 3% yoy
- Upward growth revisions for Czech Republic and Romania
- Inflation rates moderate in CE/SEE, successful disinflation in Russia
- Fiscal deficits to increase close to Maastricht line, special focus on Romania

CEE GDP growth (% yoy)



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Russia's recovery (real GDP)



Source: Bloomberg, GKS, RBI/Raiffeisen RESEARCH

CEE quarterly growth rates (% yoy)

	Q4 16	Q1 17	Q2 17
CZ	1.8	3.0	4.7
HU	1.6	4.2	3.2
PL	2.5	4.0	3.9
SI	3.5	5.1	4.4
SK	3.0	3.1	3.3
CE	2.4	3.9	4.0
BG	3.4	3.5	3.6
HR	3.4	2.5	2.8
RO	4.8	5.7	5.9
RS	2.5	1.0	1.3
SEE	4.1	4.3	4.5
RU	0.3	0.5	2.5
UA	4.8	2.5	2.4
EE	0.6	0.6	2.5
CEE	1.6	2.2	3.2
TR	4.2	5.2	5.1
DE	1.8	2.0	2.1
EA	1.9	2.0	2.3

Source: Bloomberg, RBI/Raiffeisen RESEARCH

Economies in the CEE region are continuing to perform strongly. For the third time in a row, the quarterly growth in Central Europe (CE) and South East Europe (SEE) surpassed one percent compared to the previous quarter. Moreover seasonally adjusted quarterly growth in Eastern Europe (EE), i.e. Russia and Ukraine, doubled to 1% in the second quarter after three quarters with more moderate growth of 0.4-0.5% qoq. Newly published estimates by the Russian statistical service show that Russia has been out of recession for a year, since Q3 2016. **Hence, overall quarterly growth for the CEE region surpassed 1%,** which is more than in any other quarter over the last two years. External support came from the euro area, where robust growth amounts to 0.5% qoq over the last two years. For EE, the lack of new geopolitical or commodity shocks has been supportive for sure. In yearly terms, the CE growth rate in Q2 climbed to 4.0%, slightly surpassing the 3.9% seen in Q1. In SEE, the yearly growth rate reached 4.5%, likewise higher from Q1 of 4.3%. Yearly growth figures in EE finally caught up, rising to 2.5% from 0.6% in Q1. **The overall yearly growth rate of the CEE region in Q2 is estimated at 3.2%,** up from 2.2% in Q1 and more than double the growth rate of one year ago. In Turkey, official statistics continue to show a booming economy, with growth slightly above 5% yoy in both Q1 and Q2. **Positive growth dynamics are also reflected in the business survey results,** which remained at very strong levels in both Q1 and Q2. The average PMI for Poland, Hungary and the Czech Republic (CE-3) still slightly surpassed 56 points. Interestingly, in Germany and for the euro area, the PMI in Q2 rose even in comparison to Q1. **Nevertheless, more recent PMI surveys held in July and August point to moderation of activity in CE-3.** The average of CE-3 PMI declined by almost two points to a value of 54.3. However, we would not overemphasise the recent decline, as for example surveys in Germany and in the euro area are remaining positive, and the August result has been better than that of July, which may point to a temporary outlier in July. **After upward revisions in June, we now again improve our outlook for the CEE region.** Most notably, we upgrade the current year estimates for the Czech Republic to 4.3% and for Romania to 5.7% on very strong Q2 GDP results. In the Czech Republic, the economy grew by 4.7% in Q2, rendering our 2017 estimate of 2.7% unrealistically low. The Romanian economy advanced even faster than expected with 5.9% yoy in Q2, after 5.7% in Q1. This leads to another upward revision by 0.8pp. Else, we slightly raised the polish growth estimate for 2017 to 4.0%, the Slovenian to 4.8%, the Bulgarian one to 4.0% and the Russian growth estimate to 1.2%. **For 2018 and 2019 growth, we likewise became more optimistic,** increasing growth forecasts for the Czech Republic, Slovenia and Romania. Only for Serbia, where growth is also currently underperforming, we take a more cautious position by lowering our growth projections by 0.5pp in both 2018-2019. Overall we maintain the picture of continued strong growth in 2018 and 2019 in CE/SEE, based on both robust export demand from the euro area, but also sufficient domestic demand. Romania's stellar growth rates, fueled by domestic demand, are unlikely to be sustainable and have to be monitored. Russia's recovery is making pro-

gress and might surprise to the upside in the near term. We do not expect radical change with Russia's upcoming Presidential election next spring and thus keep our growth forecasts at moderate 1.5% for 2018 and 2019.

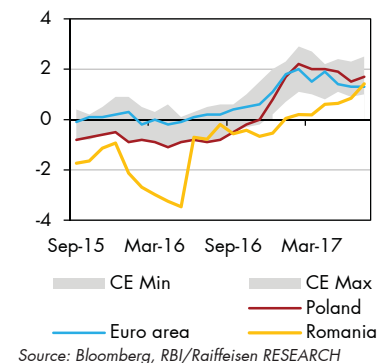
Inflation rates in CE/SEE are at moderate levels and partly hovered sideways in recent months. In several countries, inflation came down after the sharp increase at the beginning of the year. In CE the lower inflation countries like Slovenia or Slovakia observed rates at around 1% yoy, while in the Czech Republic and Hungary inflation reached 2-2.5% yoy. In Romania, inflation continued to rise, but from low levels and still moderate below 2%.

Our adjustments to the inflation projections are mostly to the downside: we expect now (slightly) lower average inflation for this year in Poland, Slovenia, Croatia, Serbia and Bosnia. However, for the Czech Republic and Romania, we increase the projection to 2.5% and 1.1% yoy, respectively. For Ukraine, more price growth is seen, raising the projection from 12% to 13.6%. Next year, Inflation in CE is seen between 2 and 2.4% in all countries besides Hungary (3.4% yoy). In SEE, the Romanian inflation rate might rise significantly – we increased the estimate for the average rate from 2.9% to 3.7% yoy. We expect that with projected 4.5% in Russia the average inflation rate will remain close to the target of 4%. On the back of the still moderate inflation outlook, we do not expect too much monetary policy tightening. Czech authorities are expected to deliver another hike already this year and the pressure on Romanian authorities might rise during next year. Russian monetary authorities are expected to continue their course of cautiously reducing the key rate, keeping the real interest rate well in positive territory.

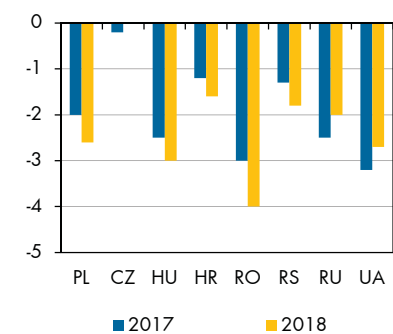
The **fiscal position** in terms of headline deficits of most CE/SEE countries noticeably improved in recent years. In 2016, all countries in CE and SEE registered general government deficit ratios below the 3% threshold (Maastricht criteria) except for Romania, where the deficit came in exactly at 3.0% of GDP. However, headline deficit reduction should slow down noticeably across the region in 2017, with some countries (Croatia, Czech Republic, Hungary) even expected to see deteriorating fiscal balances. For the CE region as a whole, headlined deficit is forecasted to decrease only marginally from 1.7% of GDP to 1.6% of GDP, as the improvement anticipated for Poland is offset by the Czech Republic and Hungary. In SEE, the budget balance is assumed to deteriorate as well owed to Bulgaria and Croatia, with Romania forecasted to remain at the 3% mark. In 2018/2019, governments are not expected to step up deficit reduction efforts. As such, we expect both the CE and the SEE deficits to increase on aggregate. In Central Europe, Poland and Hungary should come close or reach the 3% ceiling in 2018/2019, respectively. In South East Europe, Romania's deficit should actually exceed this mark at least in 2018 (forecast: 4.0%), which could result in launching an excessive deficit procedure. The outlook for stagnating or even increasing headline deficits in the CE/SEE region over the forecast horizon is taking place against the backdrop of a very benign economic environment and closed output gaps. Thus fiscal policy is expected to act pro-cyclical and foster already very healthy business cycle dynamics. Overall the fiscal policies in CE/SEE countries on aggregate are currently more leaning towards a pro-cyclical loosening – with a somewhat stronger pro-cyclical bias than inside the euro area. To be fair, CE/SEE countries have also shown the ability to implement a stricter pro-cyclical tightening than inside the euro area if needed.

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

Recent CPI trend (% yoy)

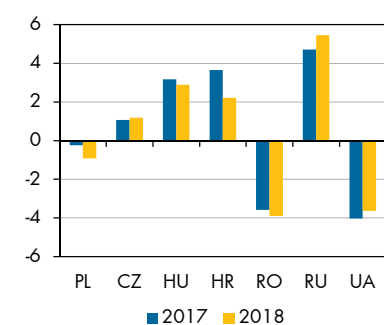


General budget deficits (% of GDP)



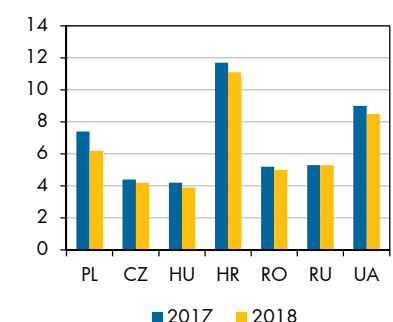
Source: National sources, RBI/Raiffeisen RESEARCH

Current account deficits (% of GDP)



Source: National sources, RBI/Raiffeisen RESEARCH

Unemployment rate (%)

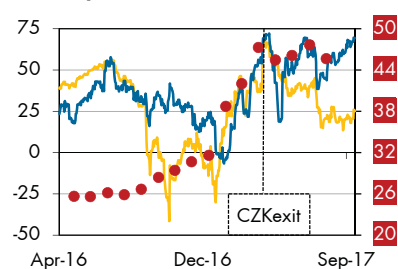


Source: National sources, RBI/Raiffeisen RESEARCH

Improved external environment keeps high-yielding bonds attractive

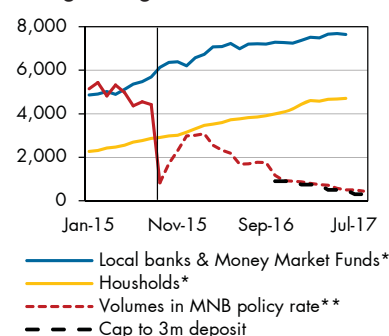
- In CE/SEE low-yielders we see some potential left in HGBs and POLGBs,...
- ...while we would temporarily avoid Czech koruna bonds on short-term exchange rate risks
- Due to expectations of further rate cuts without threatening RUB stability, we still recommend Buying OFZs
- We add TURKGBs on a speculative basis as expected disinflation should allow for moderate monetary policy easing

CZGB spreads vs. Bunds and NRH



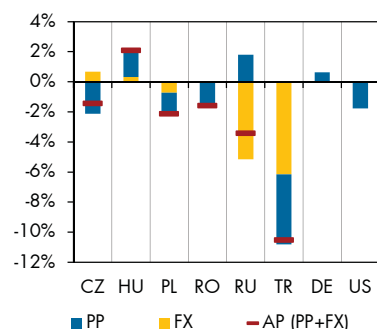
* % share of non-resident holdings (NRH) in total CZK government bonds (CZGBs) outstanding
 2y-2y: 5y high 70 5y low -42
 10y-10y: 5y high 89 5y low -23
 Source: Bloomberg, CZ MinFin, RBI/Raiffeisen RESEARCH

Strengthening local investor base



* investments in T-bills and T-bonds
 ** on 23 Sep 2016 MNB replaced 2w deposit rate by 3m pendant as policy rate; amounts allowed to be placed in the 3m deposit facility were reduced gradually since Q4 2016 from HUF 900 bn to HUF 300 bn currently; by end-2017, cap will be reduced to HUF 75 bn
 Source: MNB, ÁKK, RBI/Raiffeisen RESEARCH

Historical quarterly performance*



* absolute performance of 10y LCY bond in LCY between 21 June and 20 September 2017
 FX: Currency performance (chg EUR/LCY)
 PP: Bond price performance (price chg + carry)
 AP: Absolute performance (PP + FX)
 Source: Bloomberg, RBI/Raiffeisen RESEARCH

Czech Republic: We would hold off for the time being due to CZK risks

Prospects for the Czech local-currency bond market are currently dominated by the outlook for the EUR/CZK exchange rate. After the Czech central bank (CNB) refloated the exchange rate on 6 April of this year ("CZKexit"), CZK appreciated by 3.5% versus EUR up until mid-September. In our view, there is a significant potential for a temporary correction in the exchange rate, because – despite the large volume of maturing bonds – supply of T-bills is limited. This will make it more difficult to roll-over investments, and some foreign investors (at around 47% the ratio of foreign investors has reached an extremely high level) may opt to simply take their profits instead. This may trigger a wave of selling, which will probably not last all that long, as any setbacks would likely be taken as an opportunity for new purchases. In any case: CZK should remain fundamentally undervalued. All in all, our sell recommendation is thus oriented towards investors which do not want to weather the anticipated, short-term volatility. For investors with a longer-term perspective, we see good chances for more gains by the end of the year. Additional rate increases, with the next one likely coming in November, should provide further support for our view, and looking to a horizon of end-2017 there should hardly be any pressure from the core euro area bond markets.

Hungary: Further steepening of the HGB curve is anticipated

In mid-September, monetary policy was eased further. As domestic banks' opportunities to invest at the central bank were limited even more, the HUF government bond market (HGBs) should feel additional support. In addition to the steepening of the yield curve from the short end, long-dated HGBs should also profit. Aside from the general need for the Hungarian banking sector to make HGB purchases given the limited alternatives, we furthermore project that inflation will only see sustained increases during the coming year. Consequently, Hungarian monetary policy could remain expansive for a long while. In terms of the exchange rate, following the latest measures by the central bank, we have probably already seen most of the HUF weakening versus EUR, and accordingly taking a short-term view a decent performance is expected over the quarter. Looking to the longer term, however, we see fewer and fewer factors that could drive further declines in HGB yields. Finally, with regard to external conditions, the short-term prospects for Hungary's financial markets (and those of the CEE region) generally improved over the summer, as the divergence in the pace of monetary policy normalisation between the USA and Europe has apparently declined.

Poland: Slight overweight due to assumption of moderating EU conflict

In our view, the dispute with the EU focused on the judiciary reform is the main reason that Polish bonds are not seeing better performance. Looking ahead, however, we believe that this factor will play an increasingly less significant role for investors. The combination of robust economic growth, low inflation, and neutral monetary policy provide a beneficial fundamental environment for PLN bonds, at least over the short term. In contrast to Hungary, the ratio of foreign investors

is way above average regional levels, in particular in longer-dated government bonds, which renders the market relatively vulnerable to external shocks. Looking to end-2017, the risks stemming from this now seem somewhat less acute than they did around the middle of the year, especially when one considers that the pace of monetary policy normalisation by the Fed and the ECB is becoming more and more synchronised. In light of these aspects and the rather stable outlook for PLN versus EUR, PLN bonds are back on the list of buys.

Romania: Somewhat more stable prospects, but still a shaky candidate

While it appears that the budget for this year is generally on track, the prospects for next year look even worse now, and experimentation in fiscal matters remains on the agenda in Romanian economic policy. Furthermore, the central bank will probably soon react to the risk of overheating in the Romanian economy and start to siphon off surplus liquidity from the banking system. As a result, we expect to see rising yields on the short end of the RON yield curve, as well as on the long end of the curve, although in the latter case the main factors will tend to be rising inflation and elevated credit risk. On the whole, we still hold the view that RON bonds should underperform in regional terms. Nonetheless, possible price losses should be offset by the attractive yield advantage, which would thus justify a neutral recommendation for these securities through to year-end.

Russia: Still attractive on additional rate cuts

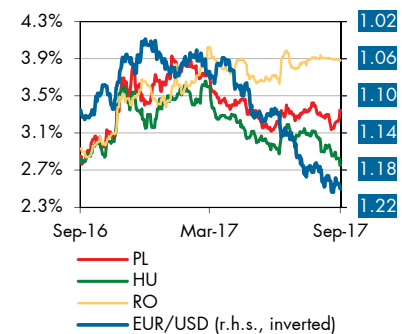
Despite the ongoing rate cuts, the level of real yields on the Russian bond market remains high. Record low inflation is contrasted against a high level of interest rates, and thus yield-hungry investors remain very interested in this asset class, despite the geopolitical risks. The overall environment for the OFZ market remains favourable, against the backdrop of a broadly stable rouble outlook and benign prospects for the price of oil respectively. Possible price losses – which might occur through to year-end as a result of the currently tight valuations – should be offset by the strong yield advantage. Based on similar considerations, the longer-term outlook for RUB bonds is also positive, even though further moves towards monetary policy normalisation are expected by the major global central banks.

Turkey: We are speculating on a modest easing of monetary conditions

As the Turkish central bank is keeping the average refinancing costs for the Turkish banking sector relatively high, at quite close to 12%, the Turkish currency is enjoying sustained support. Moderate easing of monetary policy should be possible towards end-2017 or early 2018, in the event that consumer price inflation does actually fall back to and remain in single-digit territory. Although the Fed will likely continue interest rate normalisation, this process will proceed gradually and slowly, and thus should be manageable. Improvements in Turkish economic prospects should also help to boost sentiment on the lira markets, and this is true for foreign investors as well, which seem to be paying less and less attention to the (geo)political risks. Against this backdrop, however, we would underline the short-term, speculative nature of this position.

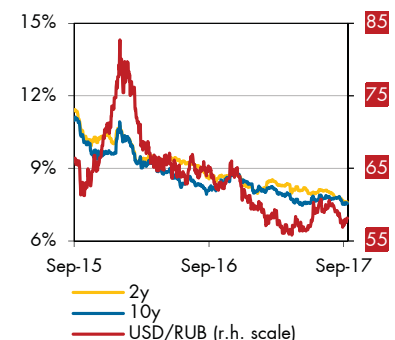
Financial analyst: Stephan Imre, RBI Vienna

ROMGBs missed summer rally*



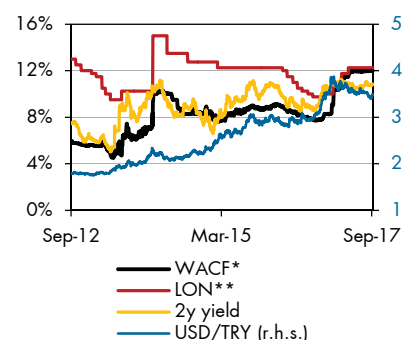
* 10y LCY government bond yields
 2y: 5y high 17.5 5y low 5.7
 10y: 5y high 16.1 5y low 6.5
 USD/RUB: 5y high 82.7 5y low 29.9
 Source: Bloomberg, RBI/Raiffeisen RESEARCH

OFZs gain in line with rouble*



* 2y and 10y LCY yields vs USD/RUB
 2y: 5y high 17.5 5y low 5.7
 10y: 5y high 16.1 5y low 6.5
 USD/RUB: 5y high 82.7 5y low 29.9
 Source: Bloomberg, RBI/Raiffeisen RESEARCH

USD/TRY and 10y TURKGB yield

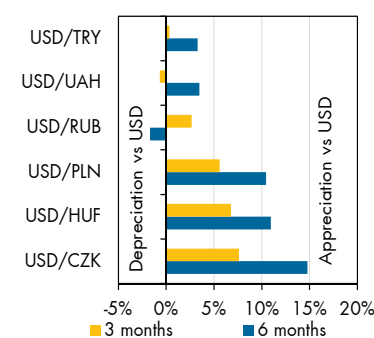


* weighted average costs of funding
 ** late liquidity window
 Source: Bloomberg, RBI/Raiffeisen RESEARCH

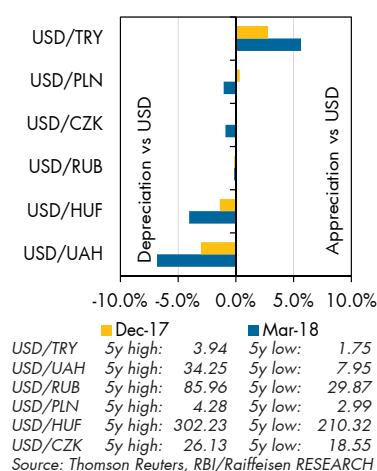
Economic conditions favourable, but politics burden PLN and TRY

- CZK appreciation potential remains
- PLN and TRY with risks stemming from political uncertainty
- Romanian leu will continue to mirror the risk of economic imbalances
- RUB stability to persist as oil price and carry give support

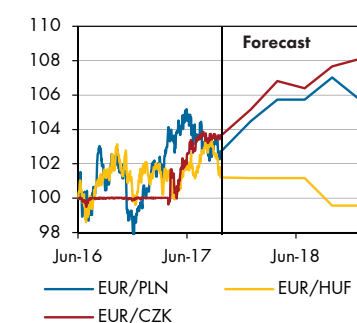
Change of LCY value to USD (%)



Projections LCY vs USD (%)



HUF expected to underperform peers*



Developments in Q3

In CE, our positive outlook for the **Polish zloty turned sour in Q3 due to political turmoil**. Especially the conflict between Poland and the European Commission on a probe into changes in the judicial system caused PLN weakening despite the continued strength of the economy. For CZK, a setback caused by the maturing of CZK government bills and bonds occurred in Q3 as predicted, but the effect was much less pronounced than we had initially estimated. The expected sideways movement in HUF proved to be correct. In the SEE region, the Romanian leu stuck out like a sore thumb, depreciating towards levels of 6.60 on risks over mounting economic imbalances. The Albanian leu and especially the Serbian dinar proved to be a bit stronger than we predicted in an overall supportive risk environment. In the EE region, **the Russian rouble moved very closely in line with our projection, showing a sideways movement** around our predicted level of USD/RUB 58 during the third quarter. The sideways Ukrainian hryvnia trend during Q3 did not match our depreciation projection, whereas BYN depreciated as forecasted. One of the strongest movements during Q3 was observed in the Turkish lira, which appreciated over the course of the quarter. Our expectation of ongoing political turmoil proved to be correct, but investors chose to increasingly ignore this effect and to focus instead on the improving economic data.

Outlook for Q4

In Poland, political topics are likely to remain a main driver for PLN. While we do not expect any significant additional escalation in the conflict between Poland and the EC in our base case scenario, and thus even forecast some PLN appreciation potential for Q4 from current elevated levels, the main risk remains the political dimension. Economic data should continue to support the zloty, and reemerging rate hike speculations should give additional assistance. Still, **we only have a Hold recommendation for the PLN in Q4**. The same is true for the PLN against the USD. In the case of the Czech koruna, we expect to see a continuation of the appreciation trend. The CZK currently remains fundamentally undervalued after the FX regime, while an additional rate hike and benign economic development should lend support. The main risk in CZK should come from the high stock of speculative capital still in the market, but this should not be a topic for Q4. **We have a CZK Buy recommendation against the EUR**. The projected appreciation versus the USD is not enough to support such a call, however, so we have a Hold recommendation for USD/CZK. The **Hungarian forint should remain in a range around 310 versus the EUR in Q4** as the Hungarian central bank responds to appreciation pressure with more liquidity measures. We have a Hold recommendation against both the EUR and the USD for Q4.

The SEE region is expected to show limited volatility in Q4. The **Romanian leu has already seen the largest part of its depreciation pressure in our view**, as markets have priced in the elevated risks of economic imbalances. For Croatia, the HRK should merely see its seasonal moderate weakening in Q4, whereas we

only expect a moderate depreciation trend for the ALL. For the Serbian dinar, the current phase of extreme strength – which has led to the central bank intervening against the RSD – seems somewhat exaggerated. Normalisation in Q4 could cause a **renewed setback in the RSD, leaving us with a Sell recommendation against both the EUR and the USD**.

In the EE region, the Russian rouble is expected to move sideways around levels of USD/RUB 58 during Q4. The Russian central bank (CBR) is projected to continue with its cautious rate cutting cycle, closely watching the effects on the RUB. Should signs of depreciation increase, the CBR will likely reduce the speed of the rate cuts or even end the cutting cycle. Slow improvement on the economic side, a still healthy carry, and our expectation for rising oil prices throughout Q4 should additionally limit the depreciation potential. At the same time, any appreciation trend towards USD/RUB 55 (in addition to low inflation rates) could cause the CBR to increase the speed of its key rate cuts, while at the same time likely prompting renewed verbal intervention from political side – something we already saw the last time the RUB went through such an appreciation phase. This should therefore **limit the appreciation potential of the rouble** as well, thus extending the phase of RUB stability as seen over the past months. We have a Hold recommendation for the RUB against both the EUR and USD. The same holds true for the UAH and BYN, where we likewise have a Hold recommendation after seeing ongoing stabilisation during the third quarter.

After already having appreciated continuously over the past months, the Turkish lira is still fundamentally undervalued according to our models. However, the political turmoil is still a significant drag on the currency and is likely undermining any stronger appreciation of the lira. At the same time, the improving economic conditions and the expectation of a fall in inflation rates in H1 2018 (due to base effects) could cause investors to speculate on rising real yields. We therefore project some additional appreciation potential for the lira, but remain cautious due to the **risks from the political side – so we are maintaining a Hold recommendation against the EUR and USD**.

Outlook for 12 months

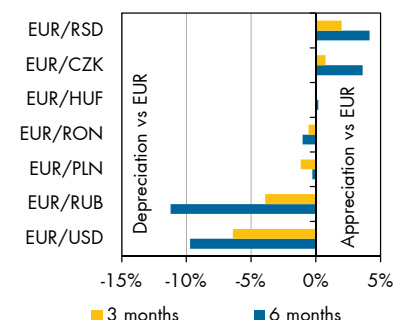
In the CE region, we remain very upbeat on the CZK's development over a 12-month horizon. The **koruna is still fundamentally undervalued against the euro, though this undervaluation should diminish over the coming months**. Here, however, the high stock of speculative capital remains our main source of concern. For the Polish zloty, we see only moderate potential for improvement as the political factor could continue to hamper the currency. Minor depreciation could be in the cards for the Hungarian forint as the Hungarian central bank is expected to remain extremely dovish.

The SEE region's exchange rates are projected to trade at low volatility over the medium term. EUR/RON is expected to remain at current elevated levels due to risks of economic imbalances, whereas the RSD and ALL could be in for a very moderate depreciation against the euro.

For the EE region, the **Russian rouble is projected to remain fairly stable around levels of 58–60 against the USD**, with support coming from the benign oil price development and real yields. The UAH and BYN, on the other hand, should see ongoing depreciation against both the EUR and USD, though we do not expect to see a larger-scale selloff in either currency.

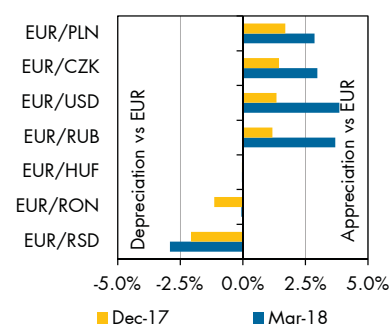
Financial analyst: Wolfgang Ernst, CEFA, RBI Vienna

Change of LCY value to EUR (%)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

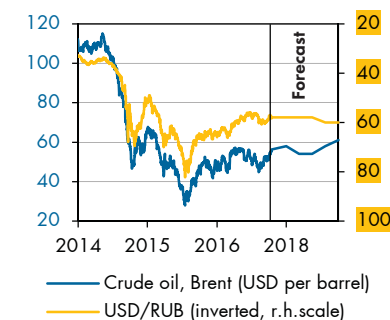
Projections LCY vs EUR (%)



EUR/RSD 5y-high: 124.42 5y-low: 110.09
 EUR/CZK 5y-high: 28.52 5y-low: 24.70
 EUR/HUF 5y-high: 327.57 5y-low: 275.93
 EUR/RON 5y-high: 4.64 5y-low: 4.30
 EUR/PLN 5y-high: 4.54 5y-low: 3.97
 EUR/RUB 5y-high: 99.56 5y-low: 39.40
 EUR/USD 5y-high: 1.3993 5y-low: 1.0341

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Oil-RUB spread declining



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

The Final Cut¹⁾

- CEE EMBIG USD price gain in Q3 was the second best after the Africa segment
- Rating trend is constructive for CEE with positive outlooks outnumbering negative by a wide margin
- Sovereign Eurobond issuance likely to be lower in Q4 at around Q3 levels
- Global market backdrop still favouring higher-yielding CEE sovereigns

EMBIG USD index & spreads*

	21-Sep		Spread value, bp		
	Index	Spread, bp	qoq*	5y min	5y max
LT (A-)	181	53	-13	51	232
PL (BBB+)	639	54	-13	50	180
RO (BBB-)	163	127	-12	120	356
HU (BBB-)	331	104	-26	99	424
KZ (BBB-)	212	230	-31	195	544
TR* (BB+)	761	289	-5	170	390
RU (BB+)	1128	185	6	152	702
HR (BB)	171	126	-40	122	402
RS (BB-)	248	131	-25	125	538
UA (B-)	790	459	-125	438	4281
Europe*	1208	229	-17	241	456
Africa	1041	369	-20	239	714
Asia	674	160	-10	153	304
Mid East	539	382	6	336	602
Latam	718	411	-19	297	719
Global	803	312	-14	244	532
Inv.grade	597	184	-10	146	337
BB	788	250	-15	188	457
B	1315	399	-50	377	995

* 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, RBL/Raiffeisen RESEARCH

CEE ratings direction

	Rating *	Direction **
CE:		
CZ	AA-(s) / A1(s) / A+(p)	↔↑
SK	A+(s) / A2(p) / A+(s)	↔↑
PL	BBB+(s) / A2(s) / A-(s)	↔
LT	A-(p) / A3(s) / A-(s)	↔↑
LV	A-(s) / A3(s) / A-(s)	↔↑
SI	A+(s) / Baa1(s) / A-(s)	↔↑
HU	BBB-(p) / Baa3(s) / BBB-(s)	↔↑
SEE:		
RO	BBB-(s) / Baa3(s) / BBB-(s)	↔
BG	BB+(p) / Baa2(s) / BBB-(p)	↔↑
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-(s) / Baa3(s) / BBB(s)	↔
RU	BB+(p) / Ba1(s) / BBB-(s)	↔
BY	B-(s) / Caa1(s) / B-(p)	↔↑
UA	B-(s) / Caa2(p) / B-(s)	↔↑

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

Market trends and ratings

A clearer Fed policy outline along with sufficient accommodation pauses helped to smooth market volatility while ECB tapering was announced long in advance, as well. In positive terms, the weakening correlation between UST and EMBIG yields brought relative spread tightening due to slightly higher UST yields while the short-term trend reconfirmed our earlier view that despite possible rate increase in global markets, absolute yield levels are too low to push investors out of riskier assets. So far, the CEE segment of EMBIG USD returned nearly +3% in price terms in Q3, delivering the second best result after Africa, while Latin America came in a close third. Naturally, the "risk taking" brought more benefits for higher-yielding riskier assets such as EE sovereign Eurobonds at the expense of more stable but lower-yielding CE and SEE. Even Turkey was unable to beat EE performance, which surged above 3% on quarterly average gain. Ukraine topped the CEE list with a nearly 8% price reward followed by 4.7% on Kazakhstan and Azerbaijan, while Belarus grew the fastest at 3.4% mom after the Ukrainian market in monthly terms. Our Buy recommendation for Turkey only delivered average performance while a decision to upgrade Ukraine from Sell to Hold proved to be correct. Interestingly, a relative performance measurement using EMBIG USD components shows CEE evenly valued vs EM peers while Latin America and Africa slightly outperform the composite on a year-to-date basis, which implies a smaller overvaluation of CEE.

The positive rating trend remains intact in CEE, with S&P recently outlining the improvements that were reflected in the fact that positive outlooks increasingly outnumber negative outlooks in our region. The most notable rating actions in Q3 included the outlook change from negative to stable for Kazakhstan by S&P and Moody's, S&P revising Russia's outlook to positive, and Fitch doing the same on Belarus. Ukraine also received a one-notch upgrade from Moody's with a positive outlook, albeit from a very low level. In CE, S&P announced positive outlooks on Lithuania and Hungary, and Fitch put the Czech Republic on a positive outlook, too, while Moody's issued a two-notch upgrade for Slovenia. In the next nine months, we expect rating upgrades for the Czech Republic, Slovakia, Lithuania, and Bulgaria as well as positive outlooks for Latvia and Croatia. EE will also continue to see more stability going forward. Turkey will remain the only exception while Romania's outlook may suffer, too, if fiscal issues have a material impact on state finances.

Primary markets

Placement activity slowed in Q3 with many CEE sovereigns already achieving the needed rollover. So far, Q3 Eurobond placement only came to 40% of the Q2 volume. In year-to-date terms, CEE placement in 2017 already reached nearly 100% of the 2016 level. Within the sub-regional breakdown, EE issuance jumped two-fold thanks to Russia and Ukraine while SEE was flat on the year and CE issuance was lower due to larger placements on the domestic market. As Russia's and Ukraine's

1) The Final Cut is a 2004 science fiction thriller movie written and directed by Omar Naim. The movie takes place in a setting where memory implants make it possible to record entire lives.

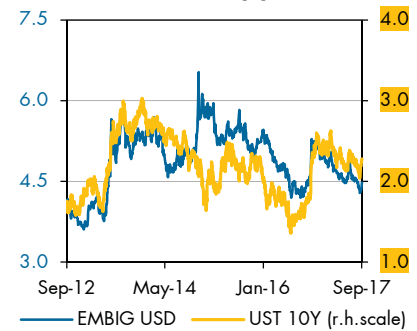
debt swaps have been completed, we expect fewer transactions from CEE sovereigns in Q4 with a total volume of USD 4–6 bn.

Outlook and strategy

The outlook for the last quarter of 2017 is a bit tricky. On the one hand, EM sovereigns including CEE continue to benefit from rock-bottom interest rates while recent bond yield increases on the developed market were too shallow by EM standards. Also, the absence of EM credit-specific events positively influenced the risk appetite of investors while smaller pockets of tension, i.e. Venezuela in Latin America, were unable to change overall positive mood. On the other hand, current market valuations are already too tight, though they are still above the all-time lows of 2007. A limited supply of new sovereign Eurobonds amid the greater use of domestic debt markets is also a technically positive factor. We are also seeing risk relocation from more stable low-beta CE and partially from SEE into higher-yielding EE, in part thanks to the stabilisation of the EE outlook. We also found no signs of strong correlation during the last UST yield uptick, which implies relatively good CEE immunity in this case. Moreover, in our own estimate, the “hunt for yield” has changed investor sentiment towards EM so sovereign risk at +150bp or higher remains attractive for many institutional players, taking into account very slow accommodation by the Fed and the much-praised ECB tapering. So far, we remain positively engaged in EE and maintain our Buy call on Ukraine, as the better macro story should feed into its prices despite the weaker momentum of reforms. The relative underperformance of Turkey in Q3 could also lead to more upside in Q4 – assuming no further sabre rattling in international politics. In Kazakhstan, the strengthened macro picture combined with the outlook upgrade to stable and no new supply speak in favour of a short-term Buy, as well. Meanwhile in the EUR space, the only positive recommendation we are maintaining is Macedonia, where politics are expected to boost the implementation of reforms.

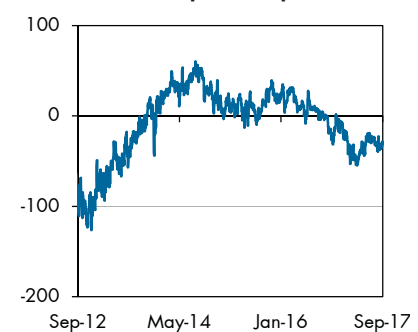
Financial analyst: Gintaras Shlizhyus, RBI Vienna

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

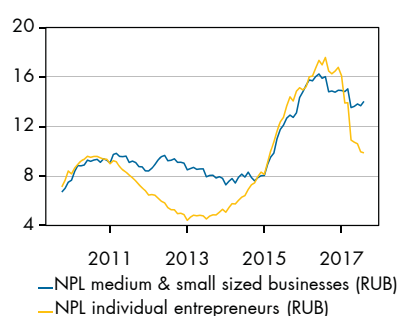
Issue	Rating	Dur.	Spread		Range		Perf. (%)	Spread		Range		Perf. (%)	Spread		Range		Perf. (%)
			21-Sep	Dec-17	min.	max.		Mar-18	min.	max.	Jun-18		min.	max.			
LT 6.625% due 22	USD	A-	3.8	46	50	47	53	-0.7	53	49	56	-1.0	59	56	62	-2.2	
LT 2.125% due 26	EUR	A-	8.4	76	80	77	83	-0.7	81	79	84	-1.2	91	88	94	-3.7	
PL 3% due 23	USD	BBB+	5.1	57	50	46	54	-0.4	52	48	56	-0.8	58	54	63	-2.4	
PL 0.875% due 27	EUR	BBB+	9.4	103	100	98	102	-0.3	101	99	103	-0.3	113	111	115	-7.1	
RO 4.375% due 23	USD	BBB-	5.2	104	115	109	121	-1.4	118	112	124	-1.8	132	126	138	-3.9	
RO 2.75% due 25	EUR	BBB-	7.3	150	150	146	154	-0.5	152	148	156	-2.1	170	166	174	-6.3	
HU 5.375% due 23	USD	BBB-	4.8	86	90	83	97	-0.9	94	86	101	-1.4	105	98	112	-3.1	
HU 3.875% due 20	EUR	BBB-	2.3	72	70	66	77	-0.1	74	70	81	-0.6	84	80	91	-1.8	
BG 2.625% due 27	EUR	BB+	8.6	141	135	131	143	0.0	139	135	146	-0.6	157	153	164	-3.9	
TR 3.25% due 23	USD*	BB+	5.0	236	220	206	234	0.0	227	213	241	-0.6	254	240	269	-3.2	
TR 4.125% due 23	EUR*	BB+	5.0	283	260	256	268	0.9	264	260	271	-0.3	297	293	304	-3.9	
RU 4.5% due 22	USD	BB+	4.0	101	115	104	126	-1.2	120	110	131	-1.6	135	124	146	-3.2	
HR 5.5% due 23	USD	BB	4.7	127	135	120	150	-1.0	143	127	158	-1.7	160	144	175	-3.7	
HR 3% due 25	EUR	BB	6.8	177	180	171	197	-0.6	189	180	206	-1.1	215	206	232	-6.9	
RS 7.25% due 21	USD	BB-	3.4	113	125	116	134	-0.9	134	126	143	-1.2	151	142	159	-2.5	
BY 7.625% due 27	USD	B-	0.3	374	350	310	390	0.1	370	330	410	-0.1	414	374	454	-0.2	
UA 7.75% due 27	USD	B-	6.9	495	460	426	494	1.3	487	452	521	-0.9	545	511	579	-6.6	

* 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

Russian corporate Eurobonds looking more attractive again

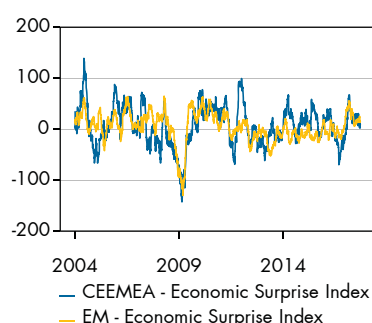
- Strong outflows at EM hard currency funds
- Rising spreads on Russian corporate Eurobonds, running against the market trend
- Demand fades for segments with high valuations in particular

RU - Non-performing loans (in %)



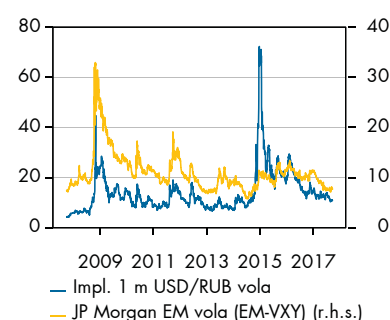
Source: CBR, Bloomberg, RBI/Raiffeisen RESEARCH

EM - Economic surprise indices



Source: Citi, Bloomberg, RBI/Raiffeisen RESEARCH

Impl. USD/RUB vola vs JPM EM vola*



* in %

Source: Bloomberg, RBI/Raiffeisen RESEARCH

Since the middle of the year, almost all of the Emerging Market (EM) corporate bond segments (hard currency bonds) have seen risk premiums decline. The strongest tightening in spreads was registered in the Latin American and Eastern European credit markets (excl. Russia). While Russian investment grade corporate bonds saw quite good performance, in the EM high yield segment the **spread development of Russian high yield issuers decoupled from the trend and was the only one of the relevant EM credit segments to record an increase in risk premiums**. Basically, as was the case on the developed markets, investment grade (IG) issuers on the EM credit markets enjoyed much better demand than high yield (HY) issuers with lower credit ratings, and sovereign issuers saw more demand than corporate issuers.

From a fundamental perspective, the sub-average performance of the Russian credit market compared to other Emerging Markets does not seem to make much sense, because indicators such as consumer confidence, retail sales, and car sales have looked quite robust in Russia in the recent past. New construction has picked up strongly (+7.1% yoy), pointing to rising investment in production capacities. Furthermore, the **increase in the price of oil since mid-2017 has had a benign effect on the Russian economy**. Along with the non-financial sector, the Russian banking sector also looks very solid. Amongst other things, return on equity has advanced to over 14%, and risk-weighted assets have declined to the lowest level in many years, reaching a level of 42.3%. Despite the **generally good economic indicators in the CEEMEA region** (Central Eastern Europe Middle East & Africa), **relatively more upside surprises were seen in the figures in the rest of the Emerging Market regions**, and this was reflected in the path of risk premiums in the various credit segments in the EM regions, with investors continuing to prefer the Latin American credit market (especially Brazil) the most.

Looking at valuations, however, the situation is somewhat different. Even following the weaker performance in recent months, the **Russian high yield credit market remains one of the most expensive EM credit segments**, and hence duration-adjusted risk premiums are expected to fall short of the market average. Since there continue to be relatively strong outflows at USD EM fixed-income funds, it is understandable that the most expensive market segments are suffering more than the cheaper ones.

The strength of the EM bond markets (sovereign and credit) in past months is also well illustrated by the broad decoupling from the development of real US yields (2y) in past years, these yields had tended to slightly foreshadow the development of risk premiums in EM spreads, but this has ceased to be the case in recent months. By contrast, the stagnation and the recent declines in real US yields have resulted in falling spreads.

On the whole, similar to the situation on the developed EUR credit markets, we initially expect to see expensive valuations which are still backed up by the good fundamental data and thus low risk premiums. Following the mild increases in spreads in conjunction with improvements in the fundamental data, we now see the Russian credit market as being somewhat more attractive.

Financial analyst: Christoph Klaper, CFA; RBI Vienna

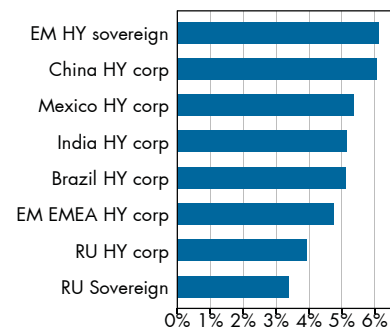
In the first nine months of 2017 to date, global EM saw a healthy 31% yoy increase in new issuance to USD 286 bn. The largest geographical block, Asia, with a 63% share, saw a very solid 55% yoy issuance increase. In contrast, LatAm, accounting for a 17% share, remained flat in yoy terms, while MidEast and Africa, with an 8% share, even dropped by 39% yoy. **Turning to CEE, despite a healthy 121% pickup year-to-date to USD 27.9 bn, issuance activity still lags behind the record years 2012–2013,** when it reached USD 72.2 bn and USD 72.7 bn, respectively. The share of CEE in total EM has increased from 6% to 10% in 2017 YTD, mostly due to a hefty 142% or USD 12.6 bn increase in the EE issuance.

Turning to our recommendations, Bulgarian Energy Holding recently announced improved H1 2017 credit metrics amid higher revenues and lower costs following the renegotiation of power purchase agreements. The Balene saga seems to be resolved as the company secured interest-free funding to settle the claim against Atomstroexport and is actively tackling the power tariff deficit of its power grid operator. Also, market liberalisation should have a positive impact on the financial performance and the stability of the producers within BEH Group (NPP Kozloduy, TPP Maritsa East 2 and NEK). According to the company statements, the companies within BEH Group are currently obliged to sell certain volumes of electricity (quotas) on the regulated market at prices lower than market prices. The discontinuation of such obligations will enable them to sell their entire output at market prices, which will increase the sales revenue generated and will improve the financial performance and the overall position of the companies and the group. **We remain buyers of BULENR 4.875% due 2021 (for details please see our CEE Credit Handbook issued on 13 July 2017).**

In the Russian remit, **we see the bail-out of Otkritie FC by the Central Bank of the Russian Federation (CBR) as positive for its senior creditors and for the market in general.** We are not changing our buy recommendation on NMOSRM 4.5% due 2019. Meanwhile, investors remain suspicious on other tier 2 names, despite the Q2 2017 reporting which showed continuing credit stabilisation and a return of ROEs to the 10–20% range. Notwithstanding a liquidity surplus for the banking system in aggregate, the CBR established a new emergency liquidity mechanism for stressed names, with a tenor of up to 90 days and flexible collateral requirements at a 175bp premium to the key rate. **We expect the sector stability concerns to continue prevailing in the regulator's thinking,** which will also include a target to maintain a reasonable market split between state-owned and private institutions. The negative sentiment towards private players prevailing at the moment is also a test of shareholders' commitment to their entities. **For state-related banks, the stable technical situation** (supported, among other factors, by favourable oil price dynamics) **might be interrupted by the topic of new US sanctions** in the segment of defence industry financing. If applied, the punitive curbs may include an asset freeze and transaction blocks in the US jurisdiction. The matter is potentially sensitive for VTB and Sberbank, which are the major loan providers in the area. Still, we think that the government will be able to rearrange the mechanism of military spending to prevent the banks from being affected.

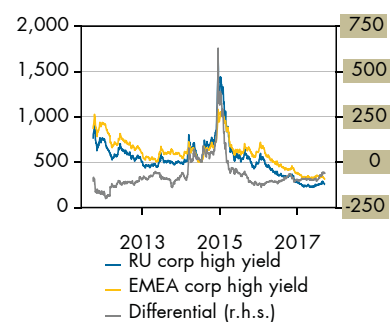
Financial analysts: Martin Kutny, CFA, Ruslan Gadeev; RBI Vienna

EM Yields in comparison (in %)



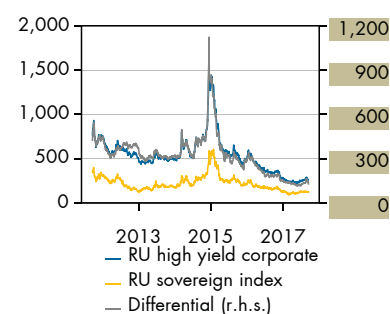
Source: Bank of America Merrill Lynch, RBI/Raiffeisen RESEARCH

RU HY corp vs EMEA HY corp spreads *



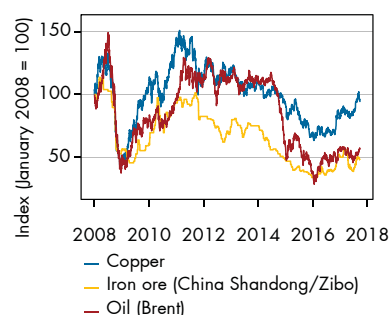
* OAS in bp
Source: Bank of America Merrill Lynch, RBI/Raiffeisen RESEARCH

RU HY corp vs RU sovereign index*



* OAS in bp
Source: Bank of America Merrill Lynch, RBI/Raiffeisen RESEARCH

Commodity prices (indexed)

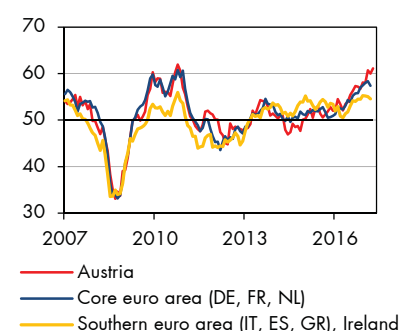


Source: Bloomberg, RBI/Raiffeisen RESEARCH

Economy running on all cylinders

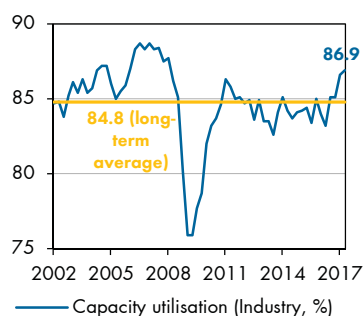
- Business cycle dynamics remained strong in the second quarter, borne by both domestic demand and foreign trade
- Construction investment gains momentum during first half of the year
- 2017 GDP growth (2.8%) anticipated to clearly exceed euro area growth (2.2%)
- Labour market reflection of strong business cycle dynamics

Industry* sentiment on cyclical high



*Purchasing Managers' Index (PMI) Manufacturing
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Above average capacity utilisation



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

The **Austrian economy** is currently in a very good shape. With real GDP growing at an average rate of 0.8% qoq (+0.8% for both Q1 and Q2; Wifo trend business cycle component) in the first and second quarter, business cycle dynamics in the period January to June were as strong as in the first half of 2011. Consequently, in terms of GDP growth **Austria** is currently **a frontrunner in the euro area**, although the present strong momentum should be viewed also as a catch-up effect, considering the sluggish economic activity seen for the past several years. During the first half of the year, business cycle dynamics were driven by both domestic demand and foreign trade. Although private consumption grew at a slightly slower pace due to the fading effect of the tax reform that came into force in early 2016 and higher inflation, nonetheless real private consumption grew at a healthy pace. Investment was also a supportive factor for business cycle dynamics, and the positive developments here were not limited merely to equipment investment, as construction investment also expanded tangibly during the first six months of 2017. Exports are enjoying tailwinds from the positive external demand conditions.

The **outlook at least for the coming months still appears to be positive**. For instance, the purchasing managers' index (PMI) for manufacturing came in at 61.1 points in August, hitting a cyclical high. In view of strong business cycle dynamics in the first half of the year and the positive outlook for the second half of the year, we have raised our **GDP forecast for 2017 from 2.2% to 2.8%**. The good economic conditions should continue until at least 2018, although compared to 2017 we already expect to see a lower growth rate of 2.2% (previously 1.7%) for next year (and 1.4% for 2019). GDP growth for 2017 as a whole and in the two following years should be broad-based.

In 2016, **private consumption** finally overcame a period of several years of stagnation. The positive trend should continue until 2019. In this regard, employment growth is also functioning as an important driving force.

In manufacturing, capacity utilisation has increased significantly over the last 12 months and is now substantially higher than the long-term average. The dynamic development of **equipment investment** should also continue for the time being.

Key economic figures and forecasts

	2016	2017e	2018f	2019f
Real GDP (% yoy)	1.5	2.8	2.2	1.4
Trade balance (goods and services, EUR bn)	12.6	14.5	16.6	17.8
Current account balance (% of GDP)	1.7	2.1	2.3	2.2
General budget balance (% of GDP)	-1.6	-0.9	-0.7	-0.6
Public debt (% of GDP)	84.6	80.2	77.9	75.6
Unemployment rate (avg, %, EU definition)	6.0	5.4	5.3	5.2
Employment (% yoy)	1.5	2.0	1.6	1.2
Consumer prices (avg, % yoy)	1.0	2.0	2.1	2.1
Real wages (% yoy)	0.6	-0.3	0.1	0.6
Unit labour costs (% yoy)	1.2	0.9	1.6	2.5

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

That said, the investment cycle is already rather mature. Accordingly, we expect equipment investment growth to slow down over the forecast horizon. By contrast, **construction investment** only really began to pick up pace in early 2017. Overall conditions (real estate prices, financing environment, building permits, sentiment in the construction industry) are positive and suggest that construction activity will remain robust in the quarters to come. But the positive trend should continue also in 2018 and 2019.

Incoming export orders in the manufacturing sector remain at high levels and along with the beneficial external demand conditions this means that the environment for strong **export activity** (in real terms, goods and services) should remain supportive in the months to come. Our scenario of healthy business cycle dynamics in key export markets (euro area and CE/SEE) in 2018 and 2019 should also provide support for exports in the coming two years. On the other hand, growth rates of real imports should continue to fall short of export growth rates, due to an anticipated moderation of domestic demand growth. As a result, along with domestic demand, foreign trade should function as a second pillar supporting economic performance.

The **labour market** currently reflects the strong economic development. Employment growth has accelerated to more than 2% yoy, with the manufacturing sector taking over as the main driving force behind this favourable development. Since August 2016 the unemployment rate has fallen from 6.2% to the latest reading of 5.4% (international definition), and in addition to the just mentioned acceleration in employment growth, this also reflects the currently only muted labour force growth. For 2017 as a whole, the unemployment rate is expected to decline (from 6.0% to 5.4%), marking the first drop since 2011. This trend is expected to continue in 2018 and 2019 (albeit at a slower pace).

After hitting a preliminary high of 2.4% yoy in February, **inflation** (HICP) subsided and is currently running at 2.1% yoy (in August), which is mainly due to oil price developments (significantly weaker increases compared to the previous year). By contrast, price dynamics for services remain high. Even though inflation (headline rate) is expected to continue weakening slightly, compared to 2016, an increase in inflation is anticipated for the year as a whole (2016: 1.0% yoy; 2017e: 2.0% yoy). For 2018 and 2019, we project similar inflation dynamics (2018/2019: 2.1% yoy), which should reflect the good economic conditions and in turn the increasing over-utilisation of production capacities.

Financial analyst: Matthias Reith, CIIA, RBI Vienna

GDP: Value added by sector

Change (% yoy, in real terms)	2016	2017e	2018f	2019f
Agriculture & forestry	4.9	-1.0	1.0	0.0
Prod. of goods/mining	1.8	5.7	4.4	2.5
Energy/water supply	-2.9	6.5	3.0	1.0
Construction	1.1	3.8	2.2	2.1
Wholesale and retail trade	2.1	3.3	2.5	2.0
Transportation	-0.4	1.1	1.4	1.4
Accom. & restaurant trade	2.1	4.0	3.0	2.0
Information and communication	0.4	1.5	1.1	0.8
Credit and insurance	0.4	0.6	0.6	0.5
Property & business services	2.0	2.7	2.6	2.2
Other economic services	1.9	2.2	2.0	1.5
Public sector	0.9	1.0	1.0	1.0
Healthcare, social services	1.3	1.4	1.5	1.3
Other services	0.7	1.1	1.2	1.2
Gross domestic product	1.5	2.8	2.2	1.4

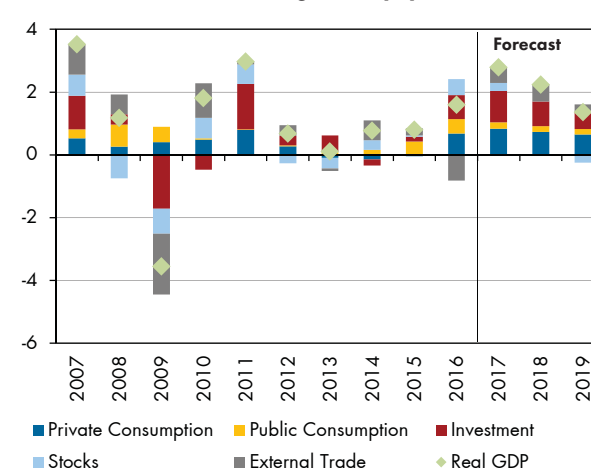
Source: Statistics Austria, RBI/Raiffeisen RESEARCH

GDP: Expenditure composition

Change (% yoy, in real terms)	2016	2017e	2018f	2019f
Private consumption	1.5	1.6	1.4	1.3
Public consumption	1.9	1.0	1.0	0.9
Gross fixed capital formation	3.4	4.3	3.4	2.2
Equipment	7.5	4.9	3.8	2.0
Construction	1.4	3.8	2.2	2.1
Exports	1.6	5.8	4.3	3.2
Imports	3.1	5.3	3.6	3.0
Gross domestic product	1.5	2.8	2.2	1.4

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

Contributions* to real GDP growth (yoy)



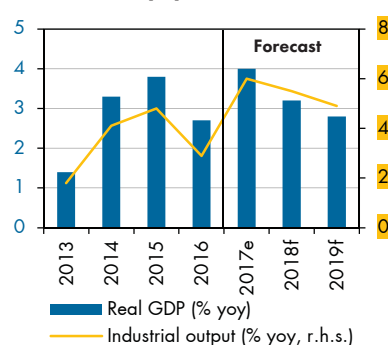
* in percentage points

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic and fiscal surprises clouded by politics

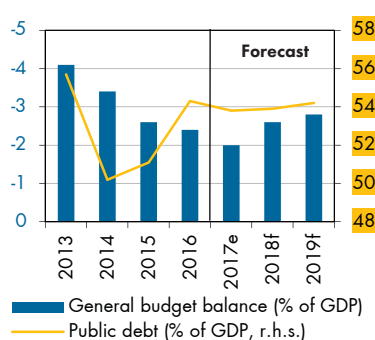
- After strong H1, growth should peak in Q3
- Investments finally feed into the real economy
- Pension reform will impact labour market, fiscal situation and potential growth
- PLN weakened by domestic and global politics

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: National sources, RBI/Raiffeisen RESEARCH

Economic outlook

The Q2 data confirmed that the **first half of 2017 was a very strong period for the Polish economy**. GDP growth reached 3.9% yoy, only slightly lower than the 4.0% achieved in Q1. The main driver remains consumption and, more importantly, it rose by a substantial 4.9% yoy – even with the abating base effect related to the launch of the monthly family benefit (in Q2 2016). Consumer confidence remains at record highs and the labour market is still strengthening while employers are increasingly reporting a lack of qualified workers. Consumption growth should therefore remain high in the second half of the year, as well, still coming in above 4% yoy.

While Q2 investment growth disappointed slightly (growing by a mere 0.8% yoy vs -0.4% in Q1), we remain optimistic for the next quarters as the **positive effects of new EU Financial Framework** begin to feed into the real economy. This is supported by the impressive results of construction output in the first month of Q3, which is the main sector benefitting from the EU funds and which grew by nearly 20% yoy in August. Therefore, we believe that investments might even grow by double-digit rates in the second half of 2017.

Meanwhile, net exports contributed negatively to GDP growth by 1.5 pp in Q2 in line with the cyclical tendency, resulting from high imports as domestic demand grows. We expect the negative net export contribution to continue into the next quarters. Despite that, the outlook for overall GDP growth in H2 remains very optimistic due to high consumer demand and expectations for improving investments, and **we therefore expect GDP growth to peak at well above 4% yoy in Q3**.

The mentioned lack of workers reported in some sectors of the Polish economy is also reflected in the PMI reading and in our opinion signals the beginning of wage pressure, which should feed into price developments. While CPI remained below 2% yoy in the last months and core inflation stabilised at 0.8% yoy, up-

Key economic figures and forecasts

	2013	2014	2015	2016	2017e	2018f	2019f
Nominal GDP (EUR bn)	395	411	430	424	461	499	528
Real GDP (% yoy)	1.4	3.3	3.8	2.7	4.0	3.2	2.8
Industrial output (% yoy)	1.8	4.1	4.8	2.9	6.0	5.5	4.9
Unemployment rate (avg, %)	13.5	12.3	10.5	9.0	7.4	6.2	5.2
Nominal industrial wages (% yoy)	2.9	3.7	3.5	4.1	4.4	4.5	4.9
Producer prices (avg, % yoy)	-1.3	-1.5	-2.2	-0.1	3.5	3.3	2.5
Consumer prices (avg, % yoy)	0.9	0.0	-0.9	-0.6	1.8	2.4	2.8
Consumer prices (eop, % yoy)	0.7	-1.0	-0.5	0.8	1.7	2.8	2.7
General budget balance (% of GDP)	-4.1	-3.4	-2.6	-2.4	-2.0	-2.6	-2.8
Public debt (% of GDP)	55.7	50.2	51.1	54.3	53.8	53.9	54.2
Current account balance (% of GDP)	-1.3	-2.1	-0.6	-0.3	-0.2	-0.9	-1.4
Official FX reserves (EUR bn)	77	83	87	108	110	122	137
Gross foreign debt (% of GDP)	70.6	71.4	70.2	74.5	73.2	72.2	66.2
EUR/PLN (avg)	4.20	4.19	4.18	4.36	4.26	4.15	4.15
USD/PLN (avg)	3.16	3.16	3.77	3.95	3.74	3.46	3.24

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

ward pressure should emerge in the next months. Adding the fact that real interest rates have been negative since the beginning of the year, we still believe **the MPC will decide to hike rates in mid-2018**. Hawkish signals are already showing up in comments from MPC members, but the balance of votes remains neutral for now. More significant changes to the MPC's stance might occur in November once the new Inflation Report is published. It would also be reasonable for the MPC to wait for the effects of the lower retirement age coming into force in October. While more than 330,000 employees will be eligible to retire, not all of them may decide to do so. Nevertheless, the change will have both immediate and long-term implications for the labour market (lower labour supply in addition to already shrinking labour force due to demographics), fiscal conditions (lower social security contributions and higher pension payments), and GDP growth (decrease in potential output).

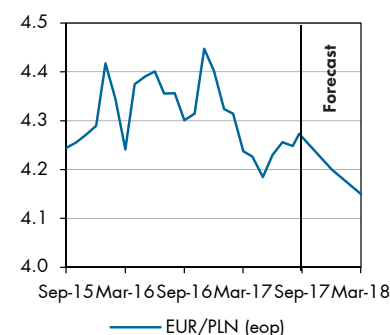
Despite the additional burden that the pension reform will have on the state budget, there is no risk of the deficit-to-GDP ratio reaching the 3% threshold. Thanks in part to the significant improvement in VAT collection, fiscal conditions this year continue to surprise on the upside and this, along with the improving economic performance, explains the unprecedented budget surplus reached in mid-2017. As a result, the deficit-to-GDP could fall below 2.5% for the whole of 2017.

Financial market outlook

The positive economic and fiscal developments were clouded in recent weeks by **increased political risks** as the government's plans for judicial reforms resulted in demonstrations in Poland and strong criticism from the EU, which led to further deterioration in relations with the block. As a result, the PLN did not sustain its appreciation trend vs. the euro from the first half of the year and returned to above 4.20. It might well reach levels above 4.30 if the issue escalates and/or if global risk aversion rises further due to the Korean crisis. In our baseline scenario, however, we do not predict an escalation of the judicial conflict in Poland and would therefore regard any setbacks as rather short lived. At the same time, we do not expect the exchange rate to decrease below 4.20 by year-end due to the political uncertainties. On the positive side, **rising speculations about rate hikes in Poland combined with the solid economic development should limit the downside for PLN moves** both in scale and duration. They might also lead to some upward pressure on bonds, especially the shorter end of the yield curve. Upward pressure might also intensify following similar movements we expect on the German bond market.

Financial analyst: Dorota Strauch, CFA; Raiffeisen Polbank, Warsaw

Exchange rate development



EUR/PLN: 5y high 4.5, 5y low 3.99

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

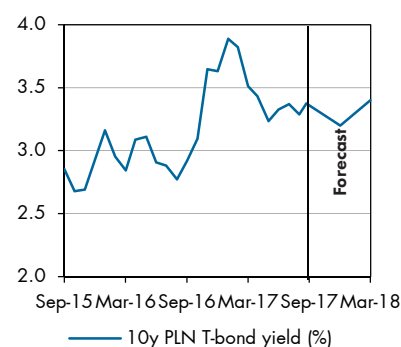
	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
EUR/PLN	4.27	4.20	4.15	4.15	4.10
Cons.		4.22	4.18	4.16	4.17

	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
USD/PLN	3.58	3.56	3.61	3.46	3.36
Cons.		3.57	3.51	3.46	3.45

¹ 5:00 p.m. (CET)

Source: Bloomberg, RBI/Raiffeisen RESEARCH

PLN yield development (%)



10y PLN T-bond yield: 5y high 4.91, 5y low 2

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts (%)

	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
Key rate	1.50	1.50	1.50	1.50	1.75
Consensus		1.50	1.50	1.50	1.60
3 month ²	1.73	1.73	1.73	1.80	2.08
Consensus		1.73	1.73	1.75	1.86

¹ 5:00 p.m. (CEST)² Offered rate

Source: Bloomberg, RBI/Raiffeisen RESEARCH

Yield forecasts (%)

	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
2y T-bond ²	1.81	1.9	2.1	2.2	2.3
Consensus		2.0	2.2	2.3	2.4
10y T-bond ²	3.37	3.2	3.4	3.4	3.5
Consensus		3.6	3.8	3.9	4.0

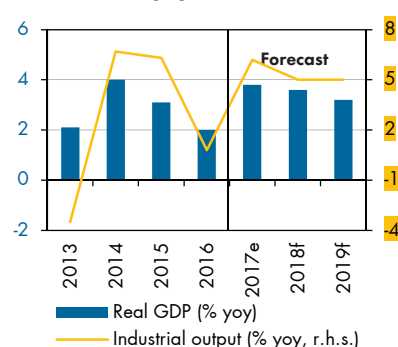
¹ 5:00 p.m. (CEST)² Bid yield

Source: Bloomberg, RBI/Raiffeisen RESEARCH

Positive macro picture persists

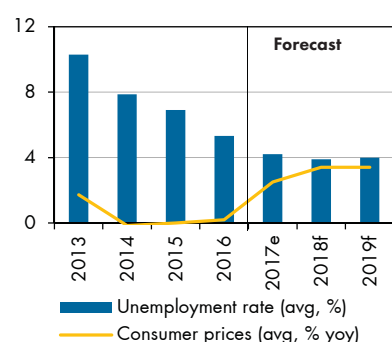
- Domestic demand driving GDP growth
- Tight labour market – wage inflation pressure on the rise
- Prolonged normalisation – conventional and unconventional monetary easing
- Stable HUF market – central bank anchors the exchange rate

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Inflation and unemployment



Source: National sources, RBI/Raiffeisen RESEARCH

Economic outlook

The Hungarian economy grew by 3.7% yoy in the first half of 2017. After the surprisingly strong Q1 data, we saw some minor deceleration in Q2 driven primarily by a decline in industry output growth and a marked decrease in the agricultural sector's value added. Construction industry activity grew especially rapidly at the same time, and the service sector remained a stable contributor to growth. This pattern is expected to remain unchanged in H2. Domestic demand was growing slightly above the overall GDP growth number in H1 2017. While household consumption demand grew by 3% yoy, public sector consumption demand decreased by close to 4% yoy and gross fixed capital formation growth was above 20% yoy. Due to the strong consumption and investment growth and the related import content, import growth came in above exports in H1 (7.5% and 6.3% yoy, respectively). The massive trade balance surplus has started to decrease, but the surplus was still EUR 5.1 bn from January to July (vs. 6.1 bn in the same period of last year). **We expect similar economic trends to carry over into H2 2017, i.e. strong consumption, skyrocketing investment growth, and slightly deteriorating external accounts.** For 2017, we expect GDP growth to be 3.8%. Looking ahead to 2018, we forecast that gross fixed capital formation and construction output growth will decline (due to the high base) while no major changes are expected in the other GDP components. We forecast 3.6% GDP growth for 2018.

The labour market tightened further in the first half of 2017, with unemployment falling to 4.2% in May to July vs. 5% one year earlier. The employment rate has increased by over 10 percentage points in the past four years – but is still quite modest at around 60%. The **labour shortage is becoming the main obstacle for companies** in developing their business. This is fuelling wage growth and also providing incentives for capex. Public works scheme employment started to decrease as

Key economic figures and forecasts

	2013	2014	2015	2016	2017e	2018f	2019f
Nominal GDP (EUR bn)	101.5	105.0	109.7	112.4	121.0	127.8	134.6
Real GDP (% yoy)	2.1	4.0	3.1	2.0	3.8	3.6	3.2
Industrial output (% yoy)	-3.5	6.7	6.3	0.8	6.2	5.0	5.0
Unemployment rate (avg, %)	10.3	7.9	6.9	5.3	4.2	3.9	4.0
Nominal industrial wages (% yoy)	4.4	4.0	5.3	7.5	12.0	10.3	6.5
Producer prices (avg, % yoy)	0.7	-0.4	-0.7	-1.7	3.0	3.0	3.3
Consumer prices (avg, % yoy)	1.7	-0.2	0.0	0.2	2.5	3.4	3.4
Consumer prices (eop, % yoy)	0.4	-0.9	0.9	1.1	2.8	3.5	3.5
General budget balance (% of GDP)	-2.3	-2.5	-2.0	-2.0	-2.5	-3.0	-3.0
Public debt (% of GDP)	76.8	76.2	75.2	73.9	73.2	72.4	71.7
Current account balance (% of GDP)	4.1	3.9	3.4	5.4	3.2	2.9	2.7
Official FX reserves (EUR bn)	33.8	34.7	30.5	24.5	23.6	21.2	18.8
Gross foreign debt (% of GDP)	118.1	114.0	106.2	98.3	88.0	81.8	76.1
EUR/HUF (avg)	296.8	308.7	309.9	311.5	308.6	311.9	315.0
USD/HUF (avg)	223.6	232.8	279.4	281.6	270.7	259.9	246.1

Source: National sources, RBI/Raiffeisen RESEARCH

it is providing a natural pool for private sector employment growth in low-skilled jobs. Wages are growing by over 10% yoy due to the scarcity of labour and also due to the minimum wage increase. At the same time, wage inflation has not yet provoked massive inflationary pressures. Consumer price inflation oscillated at around the 2% yoy level in the first eight months of the year. Nevertheless, this is already a marked increase over the inflation environment over the past three years (practically zero inflation). **We expect inflation to increase further**, partly reflecting the stronger demand side and partly the sustained high wage inflation. That said, even under such a scenario, inflation is expected to come in just slightly above the 3% inflation target in 2018.

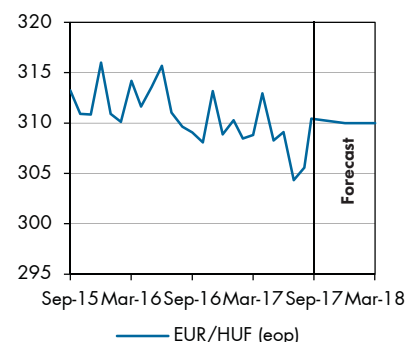
Financial analyst: Zoltán Török, Raiffeisen Bank Zrt., Budapest

Financial market outlook

The central bank's monetary policy is going along the expected lines. The Hungarian National Bank (MNB) had indicated possible further unconventional easing in August in response to the unwanted appreciation of the Hungarian forint, which had reached a 28-month high against the euro (EUR/HUF 302) earlier that month. **The stronger forint not only jeopardises inflation expectations and hampers exports, but also lowers the income on FX reserve assets, which constitutes a significant portion of the MNB's profit.** We believe that the MNB does have an implicit FX target somewhere around EUR/HUF 310. Furthermore, we believe that the Monetary Council will do whatever it takes to keep the spot rate close to or even above that level for as long as possible. The market has been pricing in 1) a lower year-end cap on the amount banks can place in three-month deposits, 2) a lower overnight deposit rate, and 3) larger and longer FX swaps (both from September). Consequently, the three-month deposit cap at end-2017 is likely to be HUF 150 bn (after HUF 300 bn at end-Q3), while the overnight deposit rate could fall 15bp further to minus 0.2%. These measures combined with the expanded firepower of the liquidity-boosting FX swaps are expected 1) to further depress money market rates and yields, which have been heading south for most of the year and even appear to be reaching new lows in the final quarter, and 2) to push the EUR/HUF rate closer to or even above our year-end target of 310. **As far as the BUBOR rates are concerned, we see potential for further 10bp downside across the curve provided the overnight deposit rate cut materialises** (i.e. the three-month money market rate is seen at around 0.05%). Bond yields across the curve could also fall to new lows in the final quarter, with the 10-year treasury yield below 2.7% by end-2017.

Financial analyst: Gergely Pálffy, Raiffeisen Bank Zrt., Budapest

Exchange rate development



EUR/HUF: 5y high 321.02, 5y low 277.77

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

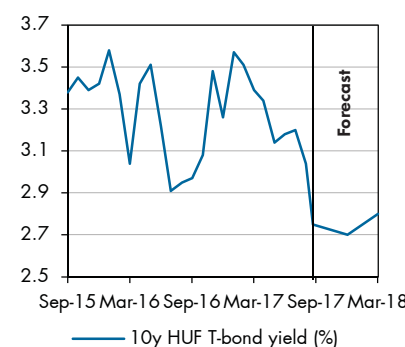
	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
EUR/HUF	310.43	310	310	310	315
Cons.		308	308	307	309

	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
USD/HUF	260.37	263	270	258	258
Cons.		260	255	255	252

¹ 5:00 p.m. (CET)

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

HUF yield development (%)



10y HUF T-bond yield: 5y high 7.51, 5y low 2.75

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts (%)

	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
Key rate	0.90	0.90	0.90	0.90	0.90
Consensus		0.90	0.90	0.95	1.00

3 month ²	0.05	0.05	0.05	0.05	0.05
Consensus		0.30	0.31	0.47	0.61

¹ 5:00 p.m. (CEST)² Offered rate

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Yield forecasts (%)

	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
3y T-bond ²	0.53	0.5	0.6	0.7	0.8
Consensus		n.v.	n.v.	n.v.	n.v.

10y T-bond ²	2.75	2.7	2.8	3.0	3.1
Consensus		3.27	3.35	3.46	3.48

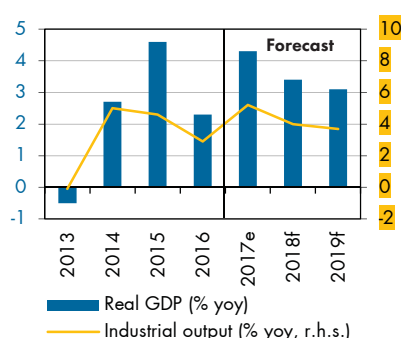
¹ 5:00 p.m. (CEST)² Bid yield

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic upswing will continue next year

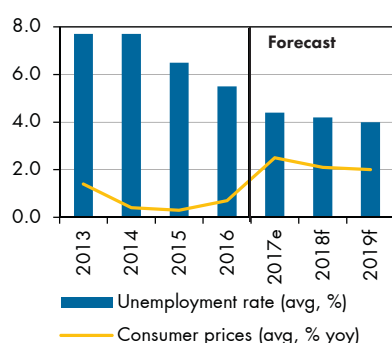
- Exhausted labour market curbs GDP growth
- Rapid wage growth will continue in 2018
- The CNB about to announce another hike
- Yields to go up gradually, the short end faster than the rest of the curve

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Inflation and unemployment



Source: National sources, RBI/Raiffeisen RESEARCH

Key economic figures and forecasts

	2013	2014	2015	2016	2017e	2018f	2019f
Nominal GDP (EUR bn)	156.9	156.6	167.0	174.2	186.2	202.3	212.2
Real GDP (% yoy)	-0.5	2.7	4.6	2.3	4.3	3.4	3.1
Industrial output (% yoy)	-0.1	5.0	4.6	2.9	5.2	4.0	3.7
Unemployment rate (avg, %)	7.7	7.7	6.5	5.5	4.4	4.2	4.0
Nominal industrial wages (% yoy)	1.0	2.9	3.0	4.1	6.8	6.6	5.6
Producer prices (avg, % yoy)	0.8	-0.8	-3.2	-3.3	2.1	1.0	1.4
Consumer prices (avg, % yoy)	1.4	0.4	0.3	0.7	2.5	2.2	2.0
Consumer prices (eop, % yoy)	1.4	0.1	0.1	2.0	2.7	2.0	2.0
General budget balance (% of GDP)	-1.3	-1.9	-0.6	0.6	-0.2	0.0	0.0
Public debt (% of GDP)	44.9	42.2	40.3	37.9	36.2	34.9	34.7
Current account balance (% of GDP)	-0.5	0.2	0.2	1.1	1.1	1.2	1.1
Official FX reserves (EUR bn)	40.8	45.0	59.4	81.3	124.0	123.0	120.0
Gross foreign debt (% of GDP)	63.5	67.8	69.4	73.2	95.0	84.1	78.1
EUR/CZK (avg)	26.0	27.5	27.3	27.0	26.4	25.3	25.0
USD/CZK (avg)	19.6	20.8	24.6	24.4	23.1	21.1	19.6

Source: National sources, RBI/Raiffeisen RESEARCH

Economic outlook

The **Czech economy is having a good year** and is in fact the fastest growing country in Europe in qoq terms after GDP growth accelerated from 3.0% yoy in Q1 to 4.7% yoy in Q2. The main drivers of this impressive growth are foreign trade, domestic demand, and fixed investment, which contributed 2.1 pp, 1.9 pp, and 1.7 pp, respectively, to overall GDP growth. This year, we reckon that real GDP will expand by 4.3% yoy. For next year, we estimate that the Czech economy will grow by 3.4 % due to an increase in investment activity (which will receive a boost from EU funds) and household consumption. On the other hand, imports will grow at a swift pace so foreign trade is likely to add very little to overall GDP growth.

The most notable characteristic of the Czech economy is a **tight labour market with palpable pressure on wage growth** as shown by a 6.5% nominal increase in the first half of 2017 and a lack of (qualified) workers. All of this puts constraints on the expansion potential of the Czech economy and has encouraged companies to invest in automation so as to move away from labour-intensive production – which is implied by an increase in imports of electrical equipment, machinery, and transport equipment. The pressure on wages coupled with the loose monetary policy translated into intensified pressure on consumer inflation, resulting in an average growth rate of 2.2% yoy in Q2. Core inflation grew by an average of 2.1% in Q2 with August's 2.4% yoy. Consequently, the CNB started to curb inflation and the growth of the economy by increasing interest rates in August as the first central bank in Europe. Right now, each step the central bank takes will depend on the appreciation pace of the Czech koruna.

We expect nominal wages to grow by 6.2% next year due to the exhausted labour market and an increase in the minimum wage by CZK 1,200 to CZK 12,200 on 1 January 2018. The Czech koruna should appreciate towards EUR/

CZK 25.00 by the end of 2018 and will create disinflationary pressure. Consequently, we expect that consumer inflation will stay slightly above the 2% target throughout the year.

Financial analysts: Milan Frydrych, Raiffeisenbank a.s., Prague

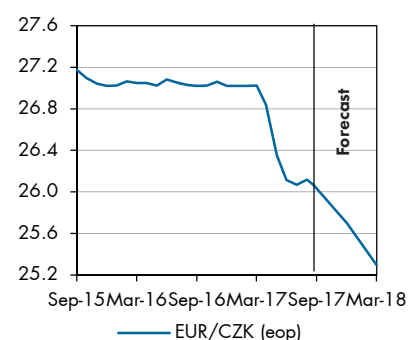
Financial market outlook

At the beginning of April, the CNB abandoned its exchange rate commitment after three and a half years and returned to the (managed) floating exchange rate. Since then, the koruna has seen noteworthy strengthening and declining exchange rate volatility. Despite some attempts by the koruna to strengthen below EUR/CZK 26.00, it has not managed to break through this level in a sustainable way so far. The return of the koruna to its equilibrium value is mainly being hampered by the huge build-up of speculative positions in CZK ahead of the commitment termination that may have already gained the status of long-term positions. And these are limiting the potential for upward or downward CZK moves. When this effect diminishes, we **expect the koruna will strengthen** to EUR/CZK 25.10 by the third quarter of 2018. For the fourth quarter, we see some possible risk related to the October elections for the lower house of parliament. Regarding the most recent pre-election polls, it might be difficult to establish the new government due to the problems of the strongest party and the reluctance of other potential coalition partners to cooperate with them. Thus, depending on the outcome, difficulties in forming a coalition might create political uncertainty on koruna market. The beginning of the monetary policy normalisation has only had a minimal impact on money market interest rates and derivatives and on government bond interest rates so far. Faster-than-expected economic growth and money market rates that are falling behind the CNB's assumption of immediate climbing are the key reasons why **we now expect an additional rate hike in November this year and another two in 2018**. In recent months, the ministry of finance has been highly active at the very short end of the yield curve and issued almost the same volume in July and August as in the first half 2017. In the quarters to come, we expect a gradual rise of the entire yield curve. The short end of the yield curve is expected to rise faster than the long end.

We expect a moderate increase in the gross Czech government bond auction volume over the rest of the year and into 2018. This could support the expected upward shift in Czech government bond yields. In the next quarters, we expect the spread between Czech and German 10-year government bonds to gradually contract from current levels as a result of the positive rating outlook and koruna strengthening against the euro.

Financial analysts: František Táborský, Raiffeisenbank a.s., Prague

Exchange rate development



EUR/CZK: 5y high 28.35, 5y low 24.76
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

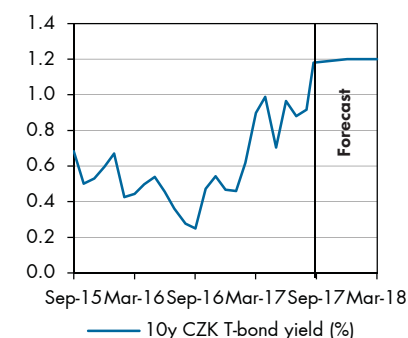
	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
EUR/CZK	26.07	25.70	25.30	25.40	25.10
Cons.		26.00	25.75	25.60	25.50

	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
USD/CZK	21.86	21.78	22.00	21.17	20.57
Cons.		21.96	21.57	21.37	21.12

¹ 5:00 p.m. (CET)

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

CZK yield development (%)



10y CZK T-bond yield: 5y high 2.69, 5y low 0.24
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts (%)

	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
Key rate	0.25	0.50	0.75	0.75	1.00
Consensus		0.40	0.45	0.60	0.70

	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
3 month ²	0.46	0.60	0.90	1.00	1.10
Consensus		0.60	0.65	0.80	0.86

¹ 5:00 p.m. (CEST)² Offered rate

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Yield forecasts (%)

	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
2y T-bond	-0.23	0.0	0.2	0.6	0.9
Consensus		-0.1	0.2	0.4	0.7

	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
10y T-bond	1.18	1.2	1.2	1.4	1.6
Consensus		1.3	1.4	1.5	1.6

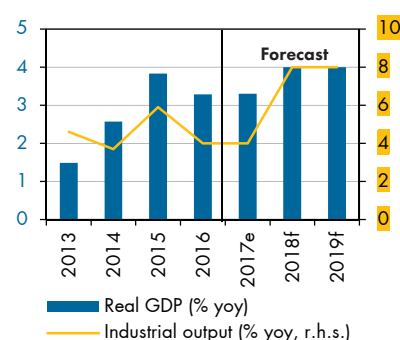
¹ 5:00 p.m. (CEST)

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Solid growth amid political disputes

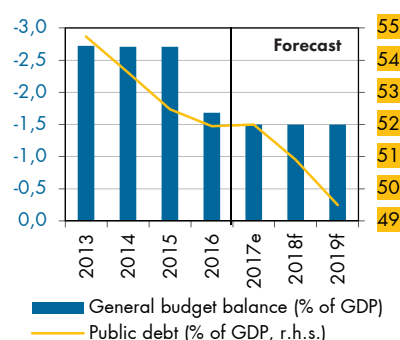
- **Strike at VW did not leave a scratch on economic growth**
- **Lack of investment replaced by household consumption**
- **Wage growth about to accelerate**
- **Political disputes intensify discussions about pre-term parliamentary elections**

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: National sources, RBI/Raiffeisen RESEARCH

Economic outlook

According to the statistical office of the Slovak Republic, economic growth accelerated to **3.3% yoy in Q2 2017**, after 3.1% in Q1. Some doubts about GDP growth were caused by the **VW strike**, which lasted for six days. It had virtually no impact on the Slovak economy at all. Even industrial production was in the black, and automotive production decreased by only 2.9% yoy in June. GDP growth was driven largely by household consumption, and that more than had been expected. The pace of household spending reached another new high in the post-crisis period at 3.5% yoy. However, government consumption and especially investments fell short of the expectations. On the one hand, investment activity contracted by 6.7% yoy in Q2 2017, while it grew by 0.9% in Q1 2017. On the other hand, the statistical office showed a significant positive change in inventories that could be transformed into investments later, during revisions. **For now, there is nothing that should stand in the way of household demand driving the growth of the economy in the coming quarters.** We expect the labour market to generate new jobs and higher wages. In the second half of the year, growth dynamics should be more or less similar to the rates seen in the first half of 2017. We expect that average GDP growth will come in at 3.3% yoy. In **2018, economic growth should speed up to 4%**. The automotive sector should add more fuel to GDP growth thanks to (1) the opening of a new Jaguar-Land Rover production plant and (2) the opening of a new production line at VW. The higher EU funds inflow should also add to investment growth.

In Q2 2017, the pace of employment growth was the same as in Q1 (2.1% yoy). Slovak companies were complaining about an overheating labour market with record high vacancies and demands for easier employment of immigrants, without any evidence of rising wages. According to the statistical office of the Slovak Republic, unemployment in Slovakia reached 8.1% in Q2 2017 – an all-time low – and **wages grew significantly by 4.8% yoy in nominal terms**. In medium-

Key economic figures and forecasts*

	2013	2014	2015	2016	2017e	2018f	2019f
Nominal GDP (EUR bn)	74.2	75.9	78.7	81.0	84.5	89.5	95.0
Real GDP (% yoy)	1.5	2.6	3.8	3.3	3.3	4.0	4.0
Industrial output (% yoy)	4.6	3.7	5.9	4.0	4.0	8.0	8.0
Unemployment rate (avg, %)	14.2	13.2	11.5	9.7	8.1	7.0	6.2
Nominal industrial wages (% yoy)	3.6	5.4	3.2	3.4	4.8	4.5	4.5
Producer prices (avg, % yoy)	-0.1	-3.5	-4.2	-4.3	0.0	2.0	2.0
Consumer prices (avg, % yoy)	1.4	-0.1	-0.3	-0.5	1.1	2.0	2.2
Consumer prices (eop, % yoy)	0.4	-0.1	-0.5	0.2	1.4	2.2	2.2
General budget balance (% of GDP)	-2.7	-2.7	-2.7	-1.7	-1.5	-1.5	-1.5
Public debt (% of GDP)	54.7	53.6	52.5	51.9	52.0	50.9	49.5
Current account balance (% of GDP)	1.8	1.2	0.2	-0.6	-0.6	0.3	0.9
Gross foreign debt (% of GDP)	81.5	89.2	85.4	88.8	89.6	86.2	82.9

* euro area entry on 1 January 2009

Source: National sources, RBI/Raiffeisen RESEARCH

sized and large companies, wage growth reached 5.7% yoy. This wage growth was long-awaited evidence indicating that the economy is **closing its output gap**. This however points to new problems. With unemployment at 7% or 8% (depending on the methodology), there seems to be a structural gap between supply and demand on the labour market. The coming quarters will reveal whether this is in fact the case or if there is still slack in the economy.

The junior coalition partner Slovak National Party (SNS) surprisingly **recalled the coalition agreement** at the beginning of August 2017. The SNS perceived the co-operation among government parties as being non-functional and asked for the complete revision of the coalition agreement and the government goals for the next years. Also, the SNS asked for higher government expenditures (wages in the public sector, more investment in spas) or the introduction of a 13th mandatory salary for all employees (including in private firms). The dispute in the coalition lasted for more than one month. Within this time, the possibility of early elections was mentioned a few times. **Prime Minister Fico was able to quell the dissent** in the coalition and they signed a new amended coalition agreement. The focus in politics will move to the upcoming regional elections.

Public discussion will be focused mainly on the region in central Slovakia that is governed by Mr. Kotleba, chair of the far-right People's Party – Our Slovakia (ĽSNS). The **outcome of the regional elections that will be held on Saturday, 4 November**, will be watched closely. However, even if they succeed, we do not expect any material impact on the financial markets.

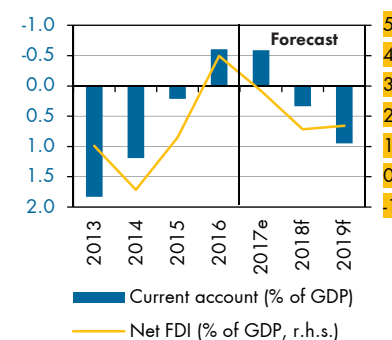
Financial analyst: Boris Fojtik, Tatra banka, a.s. Bratislava

Financial market outlook

Slovak government bonds showed some volatility in recent weeks. However, this shouldn't be interpreted as a sign of uncertainty as to Slovak sovereign risk, but as the result of a thinned-out market. The Slovak risk premium over Germany has now stabilised at around 40bp, which is still fairly priced given the fundamentals and the strong dampening impact of ECB purchases. It is worth remembering that **Slovak government bonds are heavily favoured by the ECB's QE design** even though the initial monthly buying target of 700 mn is persistently missed. Taking a short-term view (1–4 months), **we recommend holding the Slovak spread** (10y vs DE) as we see limited scope for a major spread increase. In the longer run, however, with the impact of QE slowly fading, we should see some moderate spread widening. Nevertheless, we expect Slovak government bonds to remain within the high-yielding core segment of the euro government bond market close to Ireland

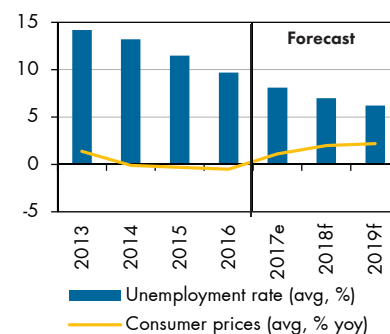
Financial analyst: Patrick Krizan, RBI Vienna

Current account and FDI inflows



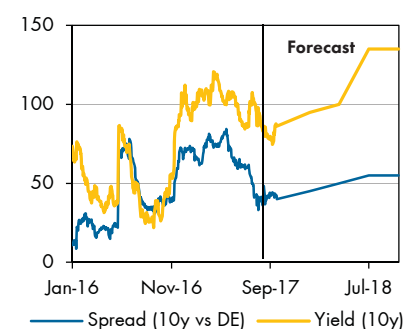
Source: National sources, RBI/Raiffeisen RESEARCH

Inflation outlook



Source: National sources, RBI/Raiffeisen RESEARCH

Yield and spread*

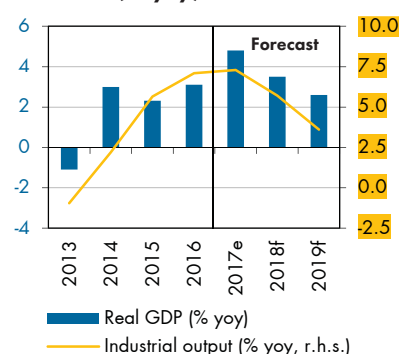


*in basis points
Yield (10y): 5y high: 484; 5y low: 22
Spread: 5y high: 295; 5y low: 8
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Economic recovery moving forward

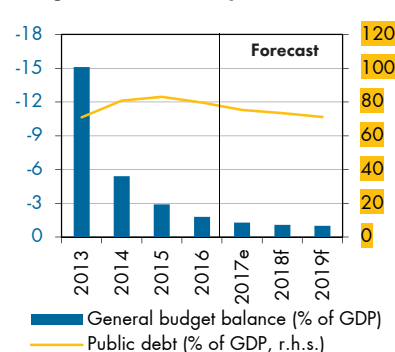
- Modest deceleration in economic activity, but at a very high level
- GDP growth rates may be the highest in the CE region for 2017
- Increasing overutilisation of production capacities
- ECB's purchases of government bonds continue to constrain risk premiums

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: National sources, RBI/Raiffeisen RESEARCH

Economic conditions in Slovenia remain excellent, even though the pace of activity has slowed down a bit in the past quarters. Real GDP growth amounted to 1.1% qoq in the second quarter, after a rate of 1.2% qoq in the first three months of the year (Q4 2016: 1.3% qoq). The Economic Sentiment Indicator (ESI) compiled by the EU Commission remains at a high level, signalling that the strong economic performance will continue in the months to come. Although we project further mild weakening of the GDP growth rates (% qoq) in the coming quarters, our **previous growth estimate for 2017 as a whole** now appears to be too conservative, and thus we have **raised our forecast from 4.6% yoy to 4.8% yoy**. With rates of 3.5% and 2.6% in 2018 and 2019, respectively, the Slovenian economy should produce growth well higher than potential, which may lead to **increasing overutilisation of production capacities**. In conjunction with further declines in the rate of unemployment, this will likely lead to mounting wage pressure. Over the entire forecast horizon, the economy should benefit from domestic demand and – to a lesser extent – from foreign trade. In respect of gross fixed capital formation, a strong gain should be registered in 2017 as a whole. In 2018 and 2019 we also expect to see strong, albeit decelerating, growth in investments. Private consumption should continue to make a significant contribution to economic growth.

The risk premium on **Slovenian government bonds** (10y vs. Germany) has settled in at a level of 55bp to 60bp. Consequently, it has decoupled strongly from the levels seen in the southern peripheral countries (Italy, Spain). At the current level, however, we see very little potential for further declines in the next one to four months. At the same time, we also only see limited upside risk. This is partially because the ECB's purchases of bonds are strongly limiting the yields on Slovenian government bonds. Over the longer term, as the effect of the ECB fades, we believe that the risk premium will rise modestly, but remain at a clear distance from Italy and Spain, thanks to the better fundamental data and positive rating outlook.

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

Key economic figures and forecasts*

	2013	2014	2015	2016	2017e	2018f	2019f
Nominal GDP (EUR bn)	36.2	37.6	38.8	40.4	43.0	45.3	47.4
Real GDP (% yoy)	-1.1	3.0	2.3	3.1	4.8	3.5	2.6
Industrial output (% yoy)	-0.9	2.2	5.6	7.1	7.3	5.7	3.6
Unemployment rate (avg, %)	10.1	9.7	9.0	8.0	7.1	6.5	6.2
Nominal industrial wages (% yoy)	2.8	3.3	2.1	2.1	2.9	3.4	3.8
Producer prices (avg, % yoy)	0.3	-1.1	-0.5	-1.4	1.4	1.7	1.9
Consumer prices (avg, % yoy)	1.9	0.4	-0.8	-0.2	1.6	2.1	2.4
Consumer prices (eop, % yoy)	0.9	-0.1	-0.6	0.6	1.8	2.3	2.6
General budget balance (% of GDP)	-15.1	-5.4	-2.9	-1.8	-1.3	-1.1	-1.0
Public debt (% of GDP)	71.0	80.9	83.1	79.7	75.4	73.5	71.2
Current account balance (% of GDP)	4.4	5.8	4.4	5.2	5.0	4.8	4.6
Gross foreign debt (% of GDP)	114.9	125.7	120.1	110.9	103.5	102.0	100.5

* euro area entry on 1 January 2007

Source: National sources, RBI/Raiffeisen RESEARCH

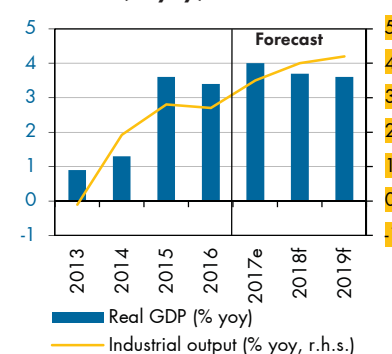
Faster growth than expected

- Household consumption strongest GDP driver
- Positive labour market and public finance developments
- Sustainable growth in lending
- Relatively calm internal political environment

Real GDP expanded faster than anticipated, accelerating from 3.5% in H1 2016 to 4.0% yoy in H1 2017. The main drivers were household consumption, which grew by 5.5% yoy, and investments, which grew by 2.3% yoy. Against this backdrop, net exports were negative as expected and even higher than in H1 2016, with exports growing by 6.1% yoy while imports soared by 7.8% yoy. **The consumption-driven growth model is expected to continue not only in H2 2017 but also in H1 2018** due to the cheaper money, a clear consequence of the ECB's ongoing QE policy. This monetary policy led to an increase in household consumption through decreasing interest rates on retail loans and rebounding inflation (1.0% eop by July). On the other hand, the growing economy and diminishing unemployment (6.3% eop in Q2) pushed wages and salaries up, which in turn further supported the upswing in consumption. Due to the fact that the country was in an election phase until June (the government took office in mid-May), the absorption of EU funds and government tenders were quite weak. However, they play a crucial role in investment development. Nevertheless, as of H1, investments grew by 2.3% yoy due to private investments, encouraged by the low interest rates on business loans. Hence, **investment is expected to grow further in H2**, supported in part by a higher level of publicly driven investments, mainly in transport infrastructure. Moreover, the budget surplus (BGN 2.0 bn by July) will be spent in H2, which will also stimulate growth.

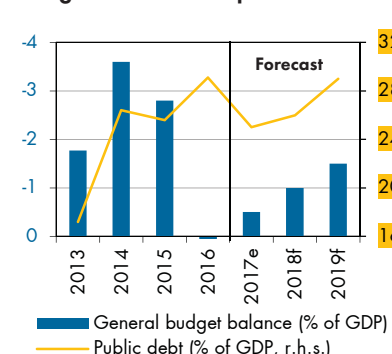
The government is expected to remain stable in the medium term due to the clear distribution of responsibilities between the coalition partners GERB (Citizens for European Development of Bulgaria) and the Patriots. In particular, preparations for Bulgaria's EU Presidency from 1 January 2018 are further strengthening the government coalition over a medium-term horizon.

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: National sources, RBI/Raiffeisen RESEARCH

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

Key economic figures and forecasts

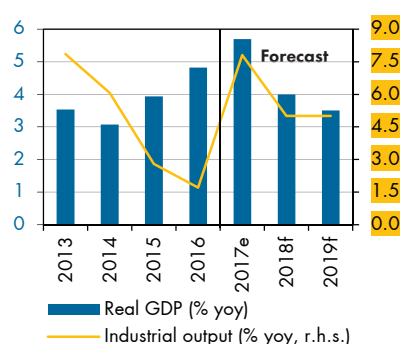
	2013	2014	2015	2016	2017e	2018f	2019f
Nominal GDP (EUR bn)	41.9	42.8	45.3	47.4	50.2	53.3	56.7
Real GDP (% yoy)	0.9	1.3	3.6	3.4	4.0	3.7	3.6
Industrial output (% yoy)	-0.1	1.9	2.8	2.7	3.5	4.0	4.2
Unemployment rate (avg, %)	12.9	11.4	9.2	7.6	6.2	6.0	6.0
Nominal industrial wages (% yoy)	3.0	0.9	9.3	8.3	8.2	7.8	7.7
Producer prices (avg, % yoy)	-1.4	-1.2	-1.9	-3.1	1.4	1.9	2.8
Consumer prices (avg, % yoy)	0.9	-1.4	-0.1	-0.8	1.8	2.6	3.1
Consumer prices (eop, % yoy)	-1.6	-0.9	-0.4	0.1	2.0	3.0	3.4
General budget balance (% of GDP)	-1.8	-3.6	-2.8	1.6	-0.5	-1.0	-1.5
Public debt (% of GDP)	17.2	26.4	25.6	29.1	25.0	26.0	29.0
Current account balance (% of GDP)	1.9	0.1	0.4	3.8	3.4	0.9	1.1
Official FX reserves (EUR bn)	14.4	16.6	20.4	23.9	23.0	23.4	23.8
Gross foreign debt (% of GDP)	88.1	92.0	75.3	73.3	68.7	65.7	62.4
EUR/BGN (avg)	1.96	1.96	1.96	1.96	1.96	1.96	1.96
USD/BGN (avg)	1.47	1.47	1.76	1.77	1.72	1.63	1.53

Source: National sources, RBI/Raiffeisen RESEARCH

Good economic performance, but uncertain fiscal outlook

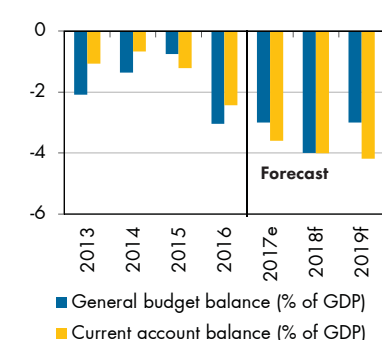
- Private consumption fuelled by wage increases still main engine of GDP growth
- Risk of fiscal slippages remains elevated especially in 2018
- Headline inflation on a sustained uptrend, likely passing 3.5% in Q1 2018
- NBR expected to start normalising monetary policy stance in Q4 2017

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Budget and current account balance



Source: National sources, RBI/Raiffeisen RESEARCH

Economic outlook

Economic activity posted an impressive performance in Q2 as real GDP advanced by 1.6% qoq and 5.9% yoy, beating the expectations. **Private consumption remained the main engine of GDP growth** while gross fixed investments posted positive dynamics for the second quarter in a row. In Q2, net exports made a negative contribution to GDP growth. On the supply side, the economic advance was broad-based as all sectors of activity excluding construction posted solid gains in Q2. Given the strong GDP advance recorded in Q2 2017, **we have upped our GDP growth forecast for the entire year from 4.9% to 5.7%**. We expect economic activity to expand further in 2018 (by 4.0%). Private consumption should remain the main engine of GDP growth in the following quarters. Further increases in wages and pensions are expected to fuel private consumption. We expect a rebound in both private and public investments in the next quarters given their poor performance starting in the beginning of 2016. Still, **risks to our baseline scenario are on the downside** given the fiscal uncertainties and the delays in implementing projects financed by EU funds. Exports of goods and services should continue on an upward trend, helped by growing external demand. However, imports should increase faster, fuelling the gradual increase of the foreign trade and current account deficits. On the supply side, economic expansion is likely to remain broad-based as we expect gross value added to increase in all sectors of activity in the next quarters.

The uncertainty related to the government's policies should remain elevated in the coming period. Given the higher upside pressure on the public budget deficit, several offsetting measures were decided (hike of excise duties on fuels, introduction of VAT split mechanism) or are intended to be implemented (reduction of transfers to the Pillar II pensions). The public budget deficit could be maintained within the

Key economic figures and forecasts

	2013	2014	2015	2016	2017e	2018f	2019f
Nominal GDP (EUR bn)	144.3	150.3	160.0	169.6	183.5	195.9	209.8
Real GDP (% yoy)	3.5	3.1	3.9	4.8	5.7	4.0	3.5
Industrial output (% yoy)	7.9	6.1	2.8	1.7	7.8	5.0	5.0
Unemployment rate (avg, %)	7.1	6.8	6.8	5.9	5.2	5.0	5.0
Nominal industrial wages (% yoy)	4.2	7.4	6.6	8.1	12.5	8.0	7.5
Producer prices (avg, % yoy)	2.1	-0.1	-2.2	-1.8	3.3	2.9	3.0
Consumer prices (avg, % yoy)	4.0	1.1	-0.6	-1.5	1.1	3.7	3.2
Consumer prices (eop, % yoy)	1.6	0.8	-0.9	-0.5	2.4	3.5	2.8
General budget balance (% of GDP)	-2.1	-1.4	-0.8	-3.0	-3.0	-4.0	-3.0
Public debt (% of GDP)	37.8	39.4	38.0	37.6	37.1	38.3	38.9
Current account balance (% of GDP)	-1.1	-0.7	-1.2	-2.4	-3.6	-4.0	-4.2
Official FX reserves (EUR bn)	35.4	35.7	35.6	37.9	38.1	39.0	39.8
Gross foreign debt (% of GDP)	68.0	63.0	56.5	54.6	52.3	52.1	52.4
EUR/RON (avg)	4.42	4.44	4.45	4.49	4.57	4.63	4.61
USD/RON (avg)	3.33	3.35	4.01	4.06	4.01	3.86	3.60

Source: National sources, RBI/Raiffeisen RESEARCH

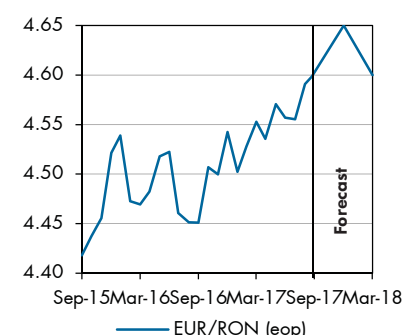
3% of GDP target this year by sharply reducing public investments (as was the case from January to July). Still, **uncertainty about the level of the public budget deficit remains high**, especially given that the ruling coalition aims to implement additional fiscal easing measures in 2018. So, upside pressure on the public deficit could become more evident in 2018, when it might climb towards 4% of GDP. The annual inflation rate rose further during the summer months, reaching 1.2% in August. At the same time, underlying inflationary pressure showed signs of strengthening recently as dynamics of CORE 3 inflation (CPI excluding administered prices, volatile prices of foods and fuels, and tobacco and alcohol) climbed to 1.6% yoy in August from 1.1% yoy in April. The increase in electricity rates (in July) and the unexpected decision by the authorities to hike excise duties on fuels (in two steps, as of 15 September and 1 October) will result in faster inflation dynamics than we previously projected. So, we have revised our end-2017 inflation forecast upwards from 1.7% yoy to 2.4% yoy. Moreover, under the new conditions, the annual inflation rate will most likely climb above 3.5% yoy as early as Q1 2018. The jump in headline inflation at the beginning of 2018 will reflect the dissipation of the favourable statistical base effect fuelled by tax cuts in January and February 2017.

Financial market outlook

Easy monetary policy conditions should not be seen as desirable by the central bank given the strong economic growth and the increasing output gap. Accordingly, **we expect the NBR to start acting to put money market interest rates on an upward trajectory**. We project that the NBR will raise the interest rate for the deposit facility in October or November this year. In our view, risk premiums for RON assets should also increase in the following quarters as investors will pay more attention to increasing macroeconomic imbalances. With inflation and risk premiums moving up, interest rates will also need to increase and there should be room for the NBR to start raising the monetary policy rate in March 2018. **Yields on RON T-bonds will also have to move upwards if the risk premiums and short-term interest rates increase**. Higher interest rate levels should also bode well for the leu, offsetting potential depreciation pressure generated by the deterioration of macroeconomic imbalances. Nevertheless, after the depreciation seen over the past months, we predict that EUR/RON will remain at elevated levels.

Financial analysts: Nicolae Covrig, CFA, Silvia Maria Rosca, Raiffeisen BANK S.A., Bucharest

Exchange rate development



EUR/RON: 5y high 4.6, 5y low 4.3
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

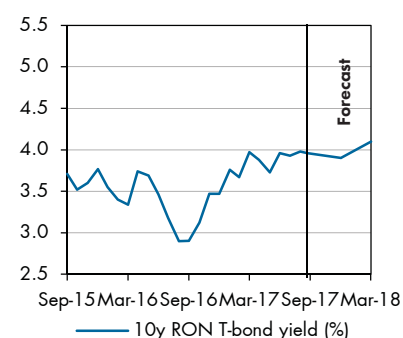
	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
EUR/RON	4.60	4.65	4.60	4.60	4.65
Cons.		4.56	4.55	4.56	4.53

	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
USD/RON	3.86	3.94	4.00	3.83	3.81
Cons.		3.85	3.82	3.74	3.72

¹ 5:00 p.m. (CET)

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

RON yield development (%)



10y RON T-bond yield: 5y high 7, 5y low 2.66
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts (%)

	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
Key rate	1.75	1.75	2.00	2.25	2.25
Consensus		1.80	1.95	2.10	2.40

	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
3 month ²	1.06	1.10	1.30	2.00	2.20
Consensus		1.30	1.47	1.62	1.95

¹ 5:00 p.m. (CEST)² Offered rate

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Yield forecasts (%)

	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
3y T-bond ²	1.95	2.1	2.4	2.9	3.0
Consensus		1.8	2.2	2.5	2.6

	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
10y T-bond ²	3.96	3.9	4.1	4.4	4.6
Consensus		3.9	4.0	4.0	3.9

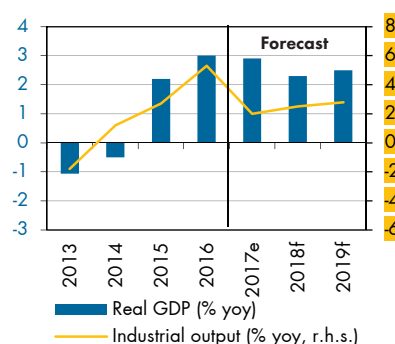
¹ 5:00 p.m. (CEST)² Bid yield

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Broad-based recovery continues, challenges remain the same

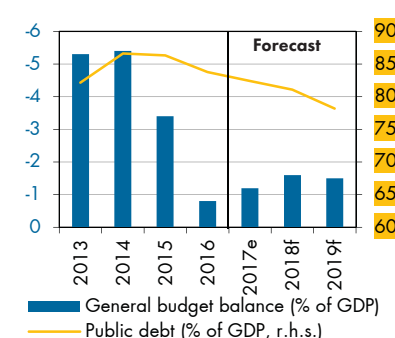
- Positive (short-term) economic outlook
- Reforms still to be tackled with purpose
- Improved fiscal metrics backed by revenue inflow
- EUR/HRK stability to be maintained along with ample liquidity

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: National sources, RBI/Raiffeisen RESEARCH

Economic outlook

Economic growth accelerated in Q2 driven by domestic demand while net exports remained a millstone, thus confirming strong import dependence and the necessity to improve the competitiveness of the real sector. The increasing optimism in the European and regional market combined with upward growth revisions for Croatia's main trading partners are fuelling expectations that exports will continue to post solid growth in the coming quarters. However, high import dependence has been diminishing positive developments. Therefore, a modest yet negative GDP contribution from net exports might be seen throughout 2017. The financial crisis in Croatia's largest private company, retailer, and distributor Agrokor has had a limited overall impact at least for now. Obviously, **investments slowed somewhat due to the Agrokor crisis**, but projects that are backed by EU funds and private sector investments (primarily tourism) will continue to be the supportive factors in the upcoming quarters. The high frequency indicator from construction supports that view. In our opinion, 2018 seems more challenging as the risk of a stronger Agrokor spillover onto the labour market and investments might be higher.

Household consumption will remain the main growth driver in the coming quarters. Therefore, a solid real rate above 3.5% yoy is expected, especially in Q3. Along with rising wages, slow but positive employment growth, modest inflation, and a lower cost of (re)financing, the crucial supportive factor remains tourism. Namely, as a labour-intensive industry and considering the accommodation capacity structure, tourism receipts increase household income significantly. Double-digit growth rates for all tourism indicators have already confirmed a record season. Although the strength of tourism helped Croatia remain on the path of 3% yoy real growth, it also increased the sensitivity to potential downturns in tourism. As long as Croatia is perceived as a safe destination, it will retain its attractive destination status.

Key economic figures and forecasts

	2013	2014	2015	2016	2017e	2018f	2019f
Nominal GDP (EUR bn)	43.5	43.0	44.1	45.8	47.9	49.8	51.9
Real GDP (% yoy)	-1.1	-0.5	2.2	3.0	2.9	2.3	2.5
Industrial output (% yoy)	-1.8	1.2	2.7	5.3	2.0	2.5	2.8
Unemployment rate (avg, %)	17.4	17.3	16.3	13.1	11.7	11.1	10.2
Nominal industrial wages (% yoy)	1.7	1.5	-4.1	2.0	4.2	3.1	2.3
Producer prices (avg, % yoy)	0.5	-2.7	-3.9	-4.1	2.2	2.4	2.0
Consumer prices (avg, % yoy)	2.2	-0.2	-0.5	-1.1	1.2	1.4	2.0
Consumer prices (eop, % yoy)	0.3	-0.5	-0.6	0.2	0.9	1.3	1.5
General budget balance (% of GDP)	-5.3	-5.4	-3.4	-0.8	-1.2	-1.6	-1.5
Public debt (% of GDP)	82.2	86.6	86.3	83.7	82.4	81.1	78.2
Current account balance (% of GDP)	1.0	2.1	4.8	2.6	3.7	2.2	2.5
Official FX reserves (EUR bn)	12.9	12.7	13.8	13.5	14.8	15.1	15.3
Gross foreign debt (% of GDP)	105.3	108.0	103.0	90.9	84.1	81.3	77.9
EUR/HRK (avg)	7.58	7.63	7.61	7.53	7.45	7.46	7.48
USD/HRK (avg)	5.71	5.76	6.86	6.81	6.54	6.22	5.84

Source: National sources, RBI/Raiffeisen RESEARCH

Under such circumstances, the budget picture looks more favourable due to the stronger revenue inflow, especially VAT. Since the primary surplus will be reached easily (at around 2% of GDP), further decreases in public debt is a likely option. However, the structure of the expenditure side, which is closely connected with the necessary structural reforms (public administration, restructuring of the state-owned enterprises, health and education sectors), still has to be tackled. Without these reforms and without business climate improvement, the potential growth rate above is unsustainable in the mid to long term. The current negative output gap will close soon, by the end of 2018 at the latest.

Financial market outlook

As expected, EUR/HRK was exposed to seasonal appreciation pressures during the last few months, widely supported by FCY inflows from tourism, improved fundamentals, and increasing HRK demand. Still, for almost the entire summer, EUR/HRK was jammed around the level of 7.40 kuna, which became a kind of unofficial psychological limit at which the central bank seems very inclined to intervene by purchasing euros from the banks. **As the year approaches its end, the usual seasonal HRK weakening can be expected.** Due to the prolonged tourist season, solid recovery, improved fiscal metrics, and decreasing external vulnerability, the depreciation pressure could be lower and of lower intensity. Still, the direction of the coming EUR/HRK movements is unquestionable.

Next year, we do not expect any significant deviations from the 2017 levels. Therefore, the EUR/HRK rate should keep its usual seasonal pattern and might remain at approximately the same levels on average. Of course, the risk of further slight-but-steady appreciation remains in the event of a prolonged recovery. Still, we do not doubt the CNB's commitment to HRK stability.

As long as the FX stability is maintained and the inflationary pressure remains modest (well below 2%), the accommodative monetary policy stance will likely be continued. That means that the money market rates and long-term yields will be supported by ample liquidity in the system and remain at the current record-low levels.

The low interest rate environment combined with improved fiscal metrics seems very favourable for the upcoming HRK local bond issuance (in the amount of at least HRK 5.5 bn) that is expected to take place during the last quarter, ahead of the November HRK bond maturity. The financial and operational restructuring of the Croatian road sector (Croatian Motorways and Motorway Rijeka - Zagreb), which is a relatively large holder of public debt (EUR 5.2 bn or more than 13.5% of the total public debt), has been a particularly demanding and challenging task for the government for some time. Therefore, refinancing and financial restructuring through bond issuance and new credit lines will definitely improve the public debt profile. Of course, the most crucial change is operational restructuring, essential not only in the road sector but also at every level/entity of the general government.

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

Interest rate forecast (%)

	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
3 month ²	0.59	0.60	0.60	0.65	0.80

¹ 5:00 p.m. (CEST)² Offered rate

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Yield forecasts (%)

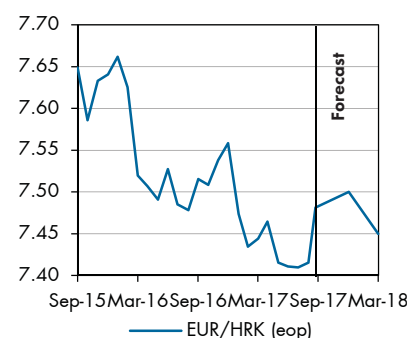
	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
2y T-bond	0.98	1.2	1.2	1.4	1.6
Consensus		n.v.	n.v.	n.v.	n.v.

10y T-bond	2.54	2.6	2.6	2.7	2.7
Consensus		n.v.	n.v.	n.v.	n.v.

¹ 5:00 p.m. (CEST)

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Exchange rate development



EUR/HRK: 5y high 7.72, 5y low 7.39

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

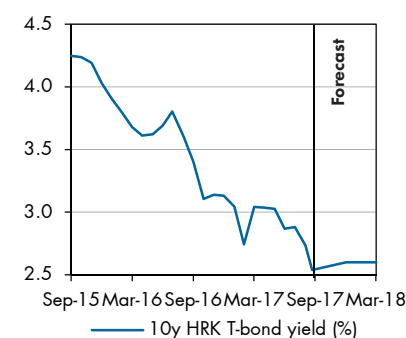
	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
EUR/HRK	7.48	7.50	7.45	7.40	7.45
Cons.		7.50	7.51	7.51	7.51

USD/HRK	6.28	6.36	6.48	6.17	6.11
Cons.		6.59	6.61	6.55	6.51

¹ 5:00 p.m. (CET)

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

HRK yield development (%)



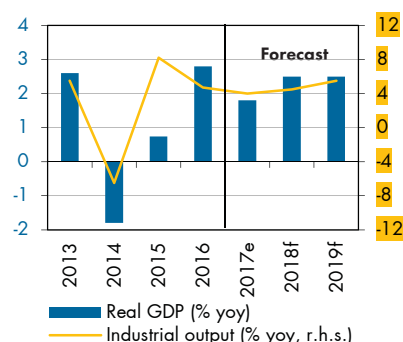
10y HRK T-bond yield: 5y high 6.19, 5y low 2.54

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Key rate cut to support mired economy

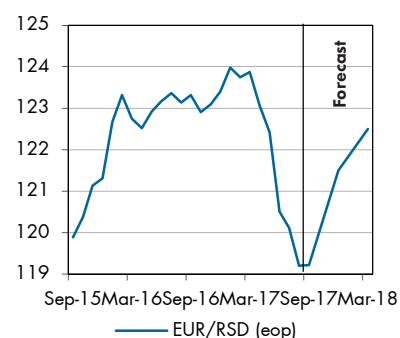
- Last IMF review in October
- Drought to further weaken GDP growth
- Dinar appreciation reinforced weaker CPI growth
- Budget surplus new normal

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Exchange rate development



EUR/RSD: 5y high 124.06, 5y low 110.33

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

The International Monetary Fund (IMF) formally closed the 7th review, praising the achieved macroeconomic stability and fiscal overperformance but calling for acceleration in the privatisation of state-owned companies and higher capital spending. Discussions on targeted public sector wage/pension hikes to support private spending acceleration and a budget law for 2018 will be the focus of the October review. An **extensive budget surplus in H1 2017 thanks to efficient tax collection** and prudent cost management triggered the budget deficit/GDP drop from 1.8% to 1.3%. Public debt plummeted to 63.5% of GDP in July (2016: 71%), in part thanks to the EUR/USD sentiment, FX loan repayments, and the budget surplus in H1 2017. The monetary policy easing bias will be supportive for yields tending downwards or at least maintaining current levels.

Declining core inflation supported the recent key rate cut. The market was caught by surprise given that inflation is within the corridor with no imminent danger of the reading slipping outside the corridor. Hence, surprisingly weak economic performance in Q2 (+1.3% yoy) following the poor GDP growth in Q1 (+1.0% yoy) after the cold winter season must have triggered the NBS decision. Taking into account the severe drought this summer, **economic prospects remain gloomy for the rest of the year** despite the government's decision to accelerate capital investments, leading us to cut our GDP growth projection from 3.0% yoy to 1.8% yoy. Stable inflation and disappointing GDP might support an easing bias towards the end of the year. Following robust LCY appreciation vs. the euro, which the NBS offset with heavy buy interventions (EUR 960 mn), the currency stabilised, though we expect moderate depreciation in Q4 amid energy imports and FX loan settlements.

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

Key economic figures and forecasts

	2013	2014	2015	2016	2017e	2018f	2019f
Nominal GDP (EUR bn)	34.3	33.1	33.3	35.0	37.7	39.7	41.6
Real GDP (% yoy)	2.6	-1.8	0.7	2.8	1.8	2.5	2.5
Industrial output (% yoy)	5.5	-6.5	8.2	4.7	4.0	4.5	5.5
Unemployment rate (avg, %)	22.1	19.2	17.7	15.3	13.0	11.0	10.5
Nominal industrial wages (% yoy)	1.5	4.0	2.9	4.0	4.0	4.0	3.5
Producer prices (avg, % yoy)	3.6	0.7	0.2	-0.5	1.5	2.5	3.5
Consumer prices (avg, % yoy)	7.9	2.1	1.4	1.2	3.1	2.9	4.0
Consumer prices (eop, % yoy)	2.2	1.7	1.5	1.6	3.0	3.0	3.0
General budget balance (% of GDP)	-5.5	-6.6	-3.7	-1.3	-1.3	-1.8	-1.8
Public debt (% of GDP)	58.8	68.8	74.7	71.6	62.8	60.5	60.0
Current account balance (% of GDP)	-6.1	-6.0	-4.6	-3.9	-5.0	-4.3	-4.1
Official FX reserves (EUR bn)	11.2	10.0	10.4	10.2	10.8	11.5	11.5
Gross foreign debt (% of GDP)	75.4	78.6	81.6	74.2	70.3	66.7	64.7
EUR/RSD (avg)	113.1	117.3	120.7	123.1	121.7	123.1	124.8
USD/RSD (avg)	85.2	88.5	108.8	111.3	106.7	102.6	97.5

Source: National sources, RBI/Raiffeisen RESEARCH

Politics weighing down the economy

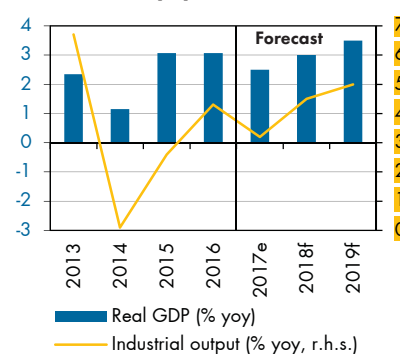
- The Extended Fund Facility (EFF) with the IMF is “off track” until 2019
- Poor political landscape not supportive of stronger economic growth
- Economic indicators, driven by the external environment, showed low volatility despite the internal political crisis
- Economic growth of 2.5% yoy and 3.0% yoy for 2017, 2018 still baseline scenario

Political developments remain a crucial downside factor for the B&H economy as the country continues to suffer from a long-running political dispute at the state level. It is unrealistic to expect to have the IMF agreement in place before the elections in October 2018 from the current political perspective. Nevertheless, **even without the IMF, the budgets should be viable and stable** as the relevant ministries are already releasing some information on alternate plans to cover missing financing from the IMF tranches in 2017 and 2018. In detail, the trade debt from Russia in the amount of USD 125 mn was paid out; FB&H plans to sell the war claim bonds in the amount of BAM 11 mn; the sale of the financial claims from the loans with the commercial banks and state-owned enterprises should secure an additional BAM 90 mn; and Republika Srpska is pushing the sale of the primary-debt-market paper. However, this alternative method of financing is only viable for a short period of time, and we believe that the IMF is the only sustainable alternative for financing in 2019 after the elections.

Fortunately, the political logjam in the country will not jeopardise overall economic growth, which is set to come in at 2.5% yoy in real terms. The main economic indicators are driven by the external environment and showed little volatility despite the internal political crisis. Especially goods exports and industry surged by 16.6% yoy and 2.6% yoy, respectively, in the first seven months of 2017. **Private consumption also remained on a positive track** as steady growth of remittances and the mild strengthening of the labour market figures kept the retail trade index well in positive territory (5.3% yoy in H1 2017). Gross investments will mostly be influenced by the poor political landscape, which is the main reason for us cutting our earlier real GDP forecast for 2017 and 2018 by 50bp.

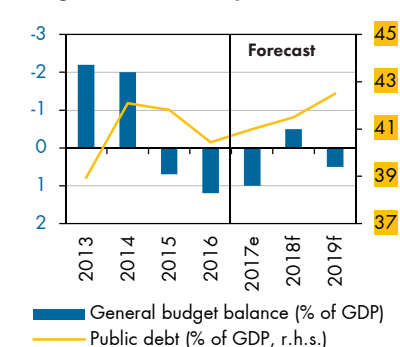
Financial analyst: Srebrenko Fatusic, Raiffeisen BANK d.d., Sarajevo

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

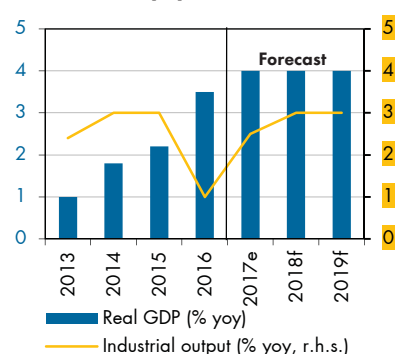
	2013	2014	2015	2016	2017e	2018f	2019f
Nominal GDP (EUR bn)	13.7	14.0	14.6	15.3	16.0	16.9	18.0
Real GDP (% yoy)	2.3	1.2	3.1	3.1	2.5	3.0	3.5
Industrial output (% yoy)	6.7	0.1	2.6	4.3	3.2	4.5	5.0
Unemployment rate (avg, %)	27.5	27.5	27.7	25.4	20.5	18.0	16.0
Nominal industrial wages (% yoy)	-0.5	0.3	0.0	0.9	3.8	4.8	3.9
Producer prices (avg, % yoy)	-2.2	-0.2	0.6	-2.3	2.0	2.2	2.3
Consumer prices (avg, % yoy)	-0.1	-0.9	-1.0	-1.1	1.5	1.5	2.0
Consumer prices (eop, % yoy)	-1.2	0.0	-1.3	-0.2	1.7	1.5	1.9
General budget balance (% of GDP)	-2.2	-2.0	0.7	1.2	1.0	-0.5	0.5
Public debt (% of GDP)	38.9	42.1	41.8	40.4	41.0	41.5	42.5
Current account balance (% of GDP)	-5.3	-7.3	-5.5	-4.4	-6.0	-6.2	-6.6
Official FX reserves (EUR bn)	3.6	4.0	4.4	4.9	4.8	5.0	5.3
Gross foreign debt (% of GDP)	52.1	51.7	53.4	54.4	55.1	54.3	52.1
EUR/BAM (avg)	1.96	1.96	1.96	1.96	1.96	1.96	1.96
USD/BAM (avg)	1.47	1.47	1.76	1.77	1.72	1.63	1.53

Source: National sources, RBI/Raiffeisen RESEARCH

Moving in the right direction

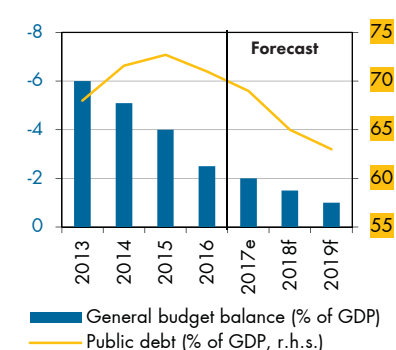
- Economy to grow by around 4.0% as planned in 2017
- Monetary policy to remain supportive
- Implementation of structural reforms to continue
- Opening of negotiation process with EU likely to start in 2018

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: National sources, RBI/Raiffeisen RESEARCH

Economic growth rose from 3.5% in 2016 to 3.9% in Q1 2017 thanks to support from almost all sectors of the economy. We expect GDP growth to remain at these high levels of 3.8–4.0% for the entire year on the back of private domestic demand and FDIs in energy-related construction projects. Next year, the economic outlook remains positive with growth of 4.0% driven by private investment and consumption.

Monetary policy is expected to remain supportive in 2018, with **the first base rate hike not anticipated before Q2 2018**. The inflation rate dropped further to 1.6% in August. We lowered our forecast for the average CPI in 2017 from 2.5% to 2.2%. The inflation rate is expected to return to the central bank target of 3.0% in 2018, as the economy will be more productive and the disinflationary pressure in the imported inflation will be diminished.

The government will continue on its fiscal consolidation path, aiming for a low budget deficit and reductions in public debt. Coupled with other measures to reduce off-book business and strengthen tax collection, the debt-to-GDP ratio will gradually fall below 60% of GDP by 2021. So far, the government is currently in a surplus for the first seven months of 2017 even though this is an election year. However, we expect the budget deficit to be 2.0% of GDP by the end of 2017. The victory of the socialist party with an absolute majority (74 out of 140) will enable the new government to continue with the implementation of its structural reforms. Its political programme is focused on the justice system, economy, and integration. **The reforms in the judicial system are moving forward** and the first concrete results are expected within the current year, so we should have an opening date for the negotiation process with the EU at some point in 2018.

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

Key economic figures and forecasts

	2013	2014	2015	2016	2017e	2018f	2019f
Nominal GDP (EUR bn)	9.6	10.0	10.2	11.0	12.0	12.8	13.9
Real GDP (% yoy)	1.0	1.8	2.2	3.5	4.0	4.0	4.0
Industrial output (% yoy)	2.4	3.0	3.0	1.0	2.5	3.0	3.0
Unemployment rate (avg, %)	17.0	18.0	17.7	15.0	14.5	14.0	12.5
Nominal industrial wages (% yoy)	8.0	8.0	8.0	3.0	1.9	3.7	1.0
Producer prices (avg, % yoy)	-0.4	-0.5	-2.1	-1.5	1.0	2.0	2.0
Consumer prices (avg, % yoy)	1.9	1.6	1.8	1.3	2.2	2.7	3.5
Consumer prices (eop, % yoy)	1.9	0.7	1.9	2.2	2.5	3.0	3.6
General budget balance (% of GDP)	-6.0	-5.1	-4.0	-2.5	-2.0	-1.5	-1.0
Public debt (% of GDP)	68.0	71.6	72.7	71.0	69.0	65.0	63.0
Current account balance (% of GDP)	-10.7	-12.9	-10.8	-9.1	-9.2	-9.4	-7.9
Official FX reserves (EUR bn)	2.0	2.2	2.9	2.9	3.0	3.0	3.0
Gross foreign debt (% of GDP)	66.2	69.5	73.2	71.7	67.4	64.7	59.8
EUR/ALL (avg)	140.3	140.0	139.7	137.3	134.2	134.6	135.9
USD/ALL (avg)	105.7	105.5	126.0	124.2	117.7	112.2	106.2

Source: National sources, RBI/Raiffeisen RESEARCH

Faster-than-expected recovery, strong disinflation

- GDP growth accelerating on favourable external environment and gradual recovery of domestic demand
- Prudent policies contributing to further decline in CPI
- Net FX sales by households and improved external liquidity supporting relatively stable BYN

Belarus' economy surprised on the upside, having posted 1.6% yoy GDP growth for the first eight months of 2017, which is much better than previously expected. The key growth driver is the external sector with exports up by an extraordinary 20% thanks to improved terms of foreign trade. **We adjusted our GDP growth expectations up to an estimated 1.5% yoy by the end of 2017.** The forecast for 2018 and 2019 is unchanged at 1.5% and 2.0% yoy, respectively. **Growth potential will still be constrained by structural weaknesses amid slowly progressing reforms.** Prudent policies by local authorities, consisting of money supply controls, caps on administrative lending, and well balanced budget spending contributed to a further reduction of imbalances, strong disinflation, and a relatively stable BYN. The C/A deficit shrank to USD 0.6 bn in H1 2017 versus USD 1.4 bn one year ago, and the trade balance is in slight surplus. A considerable slowdown in inflation to 5.3% yoy in August 2017 increased room for key rate cuts – from an initial 18% to 11.5% by September 2017. Given the authorities' commitment to continue the current policies and taking into account the ongoing phased increase in utility tariffs in line with EFSD matrix and some pressure expected from the upsurge in consumer lending, we still do not expect annual CPI to exceed 7.5% yoy by the end of this year and to run at 8% yoy in the following couple of years. Higher FX inflows from improved exports, increased net FX sales by households, proceeds from the EFSD loan and Eurobond transaction, and a recent new 10-year USD 700 mn loan from Russia enabled timely foreign debt repayments and a visible increase in FX reserves by over 40% to almost USD 7 bn. By mid-September, BYN only saw a moderate loss in value. **We improved our BYN forecast on strong foreign trade results and improved access to FX liquidity.** Somewhat higher depreciation rates in the years to come are expected due to the country's dependence on external funding to cover the financing needs for foreign debt redemption and the C/A deficit.

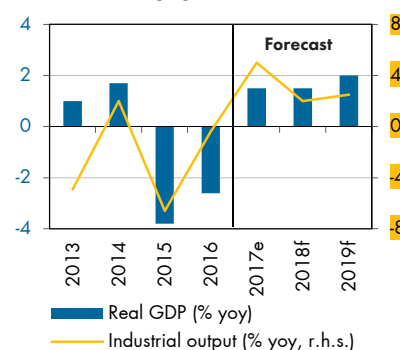
Financial analyst: Natalya Chernogorova, Priorbank Open Joint-Stock Company, Minsk

Key economic figures and forecasts

	2013	2014	2015	2016	2017e	2018f	2019f
Nominal GDP (EUR bn)	54.9	57.2	49.1	42.9	47.5	47.7	46.2
Real GDP (% yoy)	1.0	1.7	-3.8	-2.6	1.5	1.5	2.0
Industrial output (% yoy)	-4.9	2.0	-6.6	-0.4	5.0	2.0	2.5
Unemployment rate (avg, %)	0.5	0.5	1.0	0.8	1.5	2.0	2.0
Nominal industrial wages (% yoy)	35.2	20.1	7.6	7.3	10.8	10.0	8.0
Producer prices (avg, % yoy)	13.6	12.8	16.8	17.0	12.5	11.0	10.0
Consumer prices (avg, % yoy)	18.3	18.1	13.5	12.0	8.5	8.5	8.0
Consumer prices (eop, % yoy)	16.5	16.2	12.0	10.6	7.5	8.0	8.0
General budget balance (% of GDP)	0.2	1.0	1.8	1.5	1.0	1.0	0.5
Public debt (% of GDP)	32.5	34.1	36.5	39.9	39.0	41.5	41.2
Current account balance (% of GDP)	-10.0	-6.8	-3.8	-3.6	-3.5	-3.1	-3.0
Official FX reserves (EUR bn)	4.8	4.2	3.8	4.7	6.1	5.4	5.3
Gross foreign debt (% of GDP)	51.8	52.6	70.2	79.3	73.0	69.9	68.5
EUR/BYN (avg)	1.18	1.36	1.77	2.20	2.19	2.40	2.73
USD/BYN (avg)	0.89	1.02	1.60	1.99	1.92	2.00	2.13

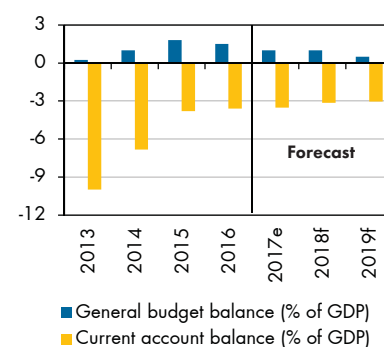
Source: National sources, RBI/Raiffeisen RESEARCH

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Budget and current account balance

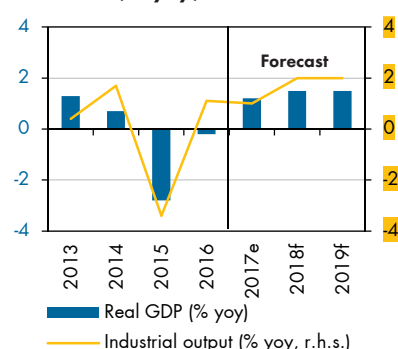


Source: National sources, RBI/Raiffeisen RESEARCH

Enhancing growth

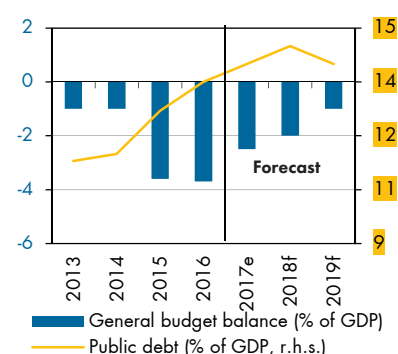
- Consumption growth improved but remains sluggish
- Government's new fiscal and economic outlook more positive
- Inflation overcame the recent shock, which allows for further rate cuts
- Yields on long OFZs have almost approached their fair levels

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Current account and FDI inflows



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Key economic figures and forecasts

	2013	2014	2015	2016	2017e	2018f	2019f
Nominal GDP (EUR bn)	1.678.8	1.551.7	1.223.8	1.160.5	1.377.1	1.395.3	1.356.5
Real GDP (% yoy)	1.3	0.7	-2.8	-0.2	1.2	1.5	1.5
Industrial output (% yoy)	0.4	1.7	-3.4	1.1	1.0	2.0	2.0
Unemployment rate (avg, %)	5.5	5.2	5.6	5.5	5.3	5.3	5.3
Average gross wages (% yoy)	12.3	8.3	4.2	7.9	6.0	6.0	6.0
Producer prices (avg, % yoy)	3.4	6.1	12.4	4.0	7.5	6.5	6.5
Consumer prices (avg, % yoy)	6.8	7.8	15.6	7.1	4.0	4.5	4.3
Consumer prices (eop, % yoy)	6.5	11.4	12.9	5.4	3.7	4.5	4.0
General budget balance (% of GDP)	-1.0	-1.0	-3.6	-3.7	-2.5	-2.0	-1.0
Public debt (% of GDP)	11.3	11.5	12.7	13.5	14.0	14.5	14.0
Current account balance (% of GDP)	1.5	3.1	5.1	1.7	4.7	5.3	5.4
Official FX reserves (EUR bn)	369.8	318.5	339.1	358.1	343.2	346.8	348.5
Gross foreign debt (% of GDP)	32.7	29.1	37.9	39.0	29.4	24.8	21.5
EUR/RUB (avg)	42.3	51.0	68.0	74.1	66.4	70.5	77.3
USD/RUB (avg)	31.9	38.6	61.3	67.0	58.2	58.8	60.4

Source: National sources, RBI/Raiffeisen RESEARCH

Economic outlook

GDP growth came in at 2.5% yoy in Q2, significantly outpacing the consensus. Overall, the economy grew by 1.5% yoy in H1, but we do not foresee further acceleration in H2 given the expected slowdown of industrial production as 1) the improvement in utilities production in H1 was driven by one-off effects from cold weather, 2) metals production is expected to be relatively flat, and 3) oil production will be limited by the OPEC+ agreement. Besides, agricultural production will be weaker due to a lower harvest. The recovery in consumption and consumer confidence will likely be limited. According to our base case scenario, **the economy will grow by 1.2% yoy**, mainly due to consumption (1.5% yoy), investments (3% yoy), and exports (3% yoy).

The presidential elections in 2018 still have not visibly affected the fiscal policy stance. According to the media, the extra budget expenditure for these purposes will only amount to RUB 100 bn. By now, the federal budget deficit for 7M 2017 declined to 0.8% of GDP. Such a positive performance was supported by a higher RUB-denominated oil price and larger volumes of energy exports. By now, the budget expenditures are lagging behind. The government's latest plan is to limit the budget deficit to 2% of GDP and is in line with the level that is stipulated in the budget law. The finance ministry also **improved the outlook for 2018 and 2019, now expecting the federal budget deficit to decline to 1.4% of GDP and 0.8–0.9% of GDP** on the back of a more positive forecast of the MinEco (larger nominal GDP and relatively high RUB oil price).

According to our expectations, **inflation** will continue its downward trend. The recent data showed that inflation overcame the shock seen in June and even **dropped below the CBR's target level in August** (3.3% yoy vs 3.9% in July), bettering the consensus and the CBR's own forecast. As expected, the main disinflationary contribution came from the food segment, where price growth slowed to 2.6% yoy. Non-food items inflation improved to 3.4% yoy, while in services

it remained relatively unchanged (4.1% yoy). We believe that inflation will be around 3.8% yoy as there will be a certain degree of seasonal price growth acceleration in Q4 2017. All in all, the recent disinflation opens up room for further rate cuts, especially taking into account an improvement in inflation expectations. At the same time, we do not rule out that the CBR could opt for a more cautious approach given persisting inflation risks, such as rouble depreciation and high inflation expectations.

Financial analysts: Stanislav Murashov, AO Raiffeisenbank, Moscow

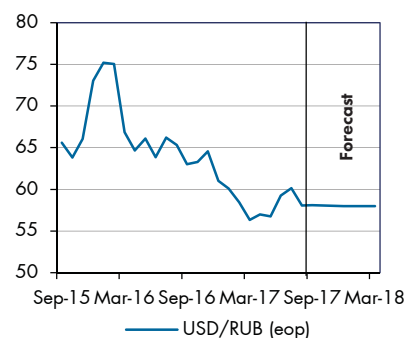
Financial market outlook

The rouble appreciation during the third quarter was supported by a stabilising oil price, ongoing benign risk sentiment, and improving economics. While these supportive factors should remain during Q4, we expect USD/RUB to move sideways around 58 as the CBR continues with its rate cutting cycle. In the event of RUB strengthening, the CBR could decide to cut interest rates faster, whereas RUB depreciation would slow the cycle down, thus keeping support from a healthy real yield side. Over the coming months, **we expect USD/RUB to trade in a tight range around 58–60** as the oil price, global sentiment, and the monetary policy should prevent larger currency swings.

In Q3, we saw renewed interest in OFZ (there was a parallel shift of the yield curve down by 40–50bp since the end of June) as a result of better-than-expected inflation data that shifted investor expectations towards the key rate arriving at the equilibrium level earlier. However, despite this improvement in inflation, the CBR has not changed its estimated long-term equilibrium key rate, which remains at 6.5–7%. Given that 10y OFZs are trading near YTM 7.5%, **there is almost no more room for further yield reductions** as a premium of 75bp over the CBR key rate looks fair from the local banks' point of view. Lower yields are possible if foreign investors continue buying bonds to take a relatively high real yield (which is now at 430bp for 10y OFZs, one of the highest in the GEM space). We see some risk of profit taking by foreign investors as yields on long OFZs have almost approached their fair levels. The recent decision of the Norwegian sovereign wealth fund to cut its investments in EM local debt is also negative for the OFZ market in the medium term (Norwegian fund is said to be the largest foreign holder of OFZs). Thus, we recommend betting on some price inefficiencies along the curve.

Financial analysts: Denis Poryvay, AO Raiffeisenbank, Moscow

Exchange rate development



USD/RUB: 5y high 84.24, 5y low 29.87

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

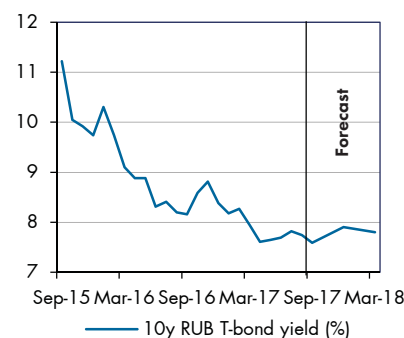
	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
EUR/RUB	69.26	68.4	66.7	69.6	73.2
Cons.		68.4	68.6	68.4	72.0

USD/RUB	58.09	58.0	58.0	58.0	60.0
Cons.		58.0	58.0	59.0	59.5

¹ 5:00 p.m. (CET)

Source: Thomson Reuters, 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 (%)

	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
Key rate	8.50	8.25	8.00	7.75	7.50
Consensus		8.2	7.9	7.6	7.4

3 month ²	8.70	8.85	8.60	8.35	8.10
Consensus		n.v.	n.v.	n.v.	n.v.

¹ 5:00 p.m. (CEST)² Offered rate

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Yield forecasts (%)

	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
2y T-bond ²	7.57	7.80	7.60	7.60	7.50
Consensus		7.8	7.4	7.2	7.0

10y T-bond ²	7.59	7.90	7.80	7.77	7.75
Consensus		7.9	7.9	7.8	7.7

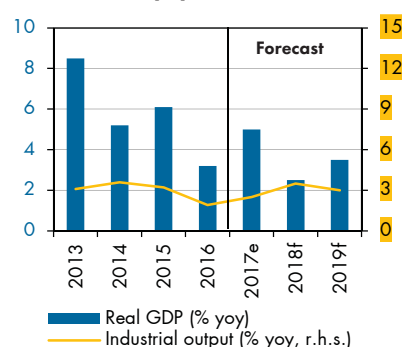
¹ 5:00 p.m. (CEST)² Bid yield

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

World-beating growth – for now

- Growth at 5%, beating expectations but raising questions of sustainability
- High inflation coming down slightly, but disinflation not an easy task
- Recovery potential for TRY still in place after prolonged weakening phase
- We see value mainly in front-end Turkish lira bonds due to expected relaxation of monetary conditions

Real GDP (% yoy)

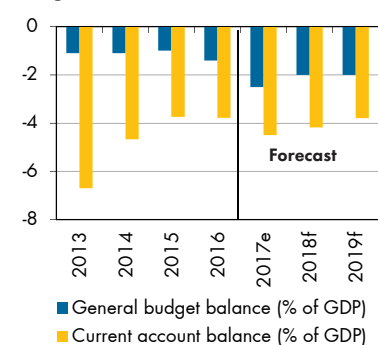


Source: National sources, RBI/Raiffeisen RESEARCH

Economic outlook

Turkey's economic growth was steaming ahead in the first half of 2017. GDP growth was slightly above 5% yoy in Q1 and Q2. According to the official estimate, seasonally adjusted growth came in at 2.1% qoq in Q2 after 1.3% in Q1. Even assuming no economic growth in the second half of this year, growth will be around 5% for the full year. Growth has been driven by strong improvements both in fixed investment and in exports, with imports rather moderate, resulting in a positive contribution to growth from net exports. Private household consumption contracted slightly to a growth rate of 3.2%. However, the stellar growth rate in fixed investments of 9.5% yoy looks suspiciously high to us. Thus, there may be a downward revision on the way. Q3 growth will likely be even higher in yoy terms given the negative rate one year ago. **For the full year, we are raising the growth forecast to 5% – higher than the sustainable growth rate for Turkey.** Next year's growth should slow more strongly to 2–3% yoy, partly due to a high base effect.

Budget and current account balance



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Inflation in Turkey receded from high levels of 12% yoy in spring to slightly lower ranges above 10%. However, this is still above the longer-term range of inflation rates between 7% and slightly below 10%. One factor behind this high inflation has been the weakening Turkish lira, which lost 20–25% yoy against the EUR and USD. However this effect should diminish. Another factor might have been strong credit and wage growth of 20% and 10%, respectively, in H1 in nominal terms. **If maintained, these factors might prevent any substantial disinflation in the coming years.** Moreover, the strong growth dynamics are adding to risks of overheating (at least if we believe the official statistics). While the current account deficit has diminished over recent years to around 4% of GDP, Turkey is still dependent on capital inflows, making it vulnerable to any deterioration in the external conditions.

Financial analyst: Andreas Schwabe, CFA, RBI Vienna

Key economic figures and forecasts*

	2013	2014	2015	2016	2017e	2018f	2019f
Nominal GDP (EUR bn)	714.7	703.8	773.4	780.1	742.2	817.3	822.6
Real GDP (% yoy)	8.5	5.2	6.1	3.2	5.0	2.5	3.5
Industrial output (% yoy)	3.1	3.6	3.2	1.9	2.5	3.5	3.0
Unemployment rate (avg, %)	9.0	9.9	10.3	10.0	10.3	10.0	10.0
Nominal industrial wages (% yoy)	6.0	n.v.	n.v.	n.v.	n.v.	n.v.	n.v.
Producer prices (avg, % yoy)	4.5	10.2	5.3	4.3	13.0	8.0	7.0
Consumer prices (avg, % yoy)	7.5	8.9	7.7	7.8	11.0	9.0	8.0
Consumer prices (eop, % yoy)	7.4	8.2	8.8	7.0	10.0	8.5	7.5
General budget balance (% of GDP)	-1.1	-1.1	-1.0	-1.4	-2.5	-2.0	-2.0
Public debt (% of GDP)	36.2	35.0	34.0	32.0	33.0	32.0	32.0
Current account balance (% of GDP)	-6.7	-4.7	-3.7	-3.8	-4.5	-4.2	-3.8
Official FX reserves (EUR bn)	95.1	105.2	101.7	100.6	89.0	80.6	75.8
Gross foreign debt (% of GDP)	41.0	43.0	46.4	47.5	48.5	42.8	40.8
EUR/TRY (avg)	2.53	2.90	3.02	3.34	4.06	4.08	4.53
USD/TRY (avg)	1.91	2.19	2.73	3.02	3.56	3.40	3.54

* new revisions to national accounts data not included
Source: National sources, RBI/Raiffeisen RESEARCH

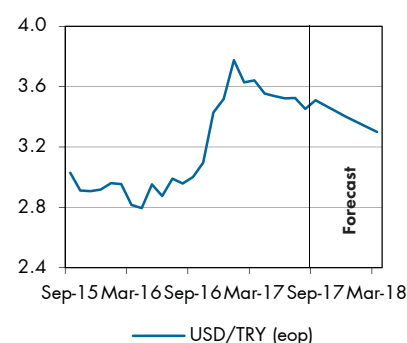
Financial market outlook

Following phases of significant TRY depreciation going into Q1 2017 driven especially by political uncertainty, the lira went through a recovery phase during the second and third quarter. This came on the back of the lira already being significantly undervalued against the USD and investors obviously ignoring the political turmoil more and more. Especially the diminishing market reaction to recent political quarrels seems to indicate that we could be in for a phase where economic fundamentals could come back into focus again. And in our view, these fundamentals continue to indicate some economic recovery that should support the lira going forward. Additionally, an expected drop in still elevated inflation rates going into the first half of 2018 would indicate a rise in real yields if the Turkish central bank keeps its hawkish stance. This would make the Turkish market more attractive to investors that are continuing to hunt for yields. Nevertheless, despite these assumptions and the possibility of some additional lira strengthening potential, **investors should acknowledge the risk from the political side that is expected to remain.** For the second half of 2018, we already expect renewed depreciation pressure for the lira with our assumption of the central bank turning more dovish and with political topics remaining on the agenda.

As for the local currency debt market in Turkey, it is mainly our expectations for decreasing CPI headline inflation that are set to unlock some value in TURKGBs. First and foremost, a normalisation of the still inverted yield curve can be expected should the Turkish central bank (TCMB) start easing monetary conditions a bit. Since April, the TCMB has held the weighted average costs of funding at tight levels, i.e. around 12%, which was inevitable to bring the ailing of the lira to a halt. When writing this report, the 2y–10y slope of the TURKGB yield curve stood at around 100bp, indicating that there should be some potential for curve disinversion. The **TCMB would be well advised not to overdo the easing of funding conditions** in order to keep the lira protected through the preservation of the attractive carry. Nevertheless, we would like to highlight the speculative nature of this recommendation since Turkish local financial markets are surrounded by a precarious mix of risks ranging from (geo)political issues to Fed tail risks, with the latter having been discounted by market participants.

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

Exchange rate development



USD/TRY: 5y high 3.55, 5y low 1.74
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

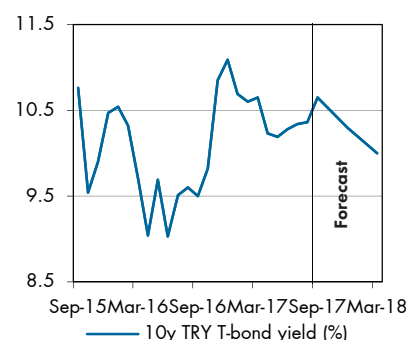
Exchange rate forecasts

	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
EUR/TRY	4.18	4.01	3.80	4.08	4.21
Cons.		4.19	4.14	4.42	4.61

USD/TRY	3.51	3.40	3.30	3.40	3.45
Cons.		3.55	3.60	3.68	3.78

¹ 5:00 p.m. (CET)
Source: Thomson Reuters, 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 (%)

	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
Key rate	8.00	8.00	8.00	8.00	8.00
Consensus		8.50	8.65	8.55	8.45

3 month ²	13.12	12.00	11.50	11.00	10.30
Consensus		12.33	12.04	12.34	12.20

¹ 5:00 p.m. (CEST)² Offered rate
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Yield forecasts (%)

	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18
2y T-bond	11.49	11.2	10.5	10.0	9.7
Consensus		11.1	10.7	10.5	10.3

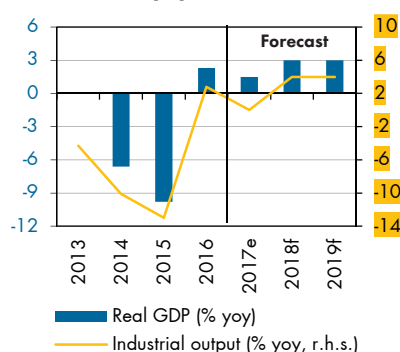
10y T-bond	10.65	10.3	10.0	9.8	9.7
Consensus		10.7	10.5	10.6	10.5

¹ 5:00 p.m. (CEST)² Bid yield
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Risks for inflation target, positive outlook for financial market

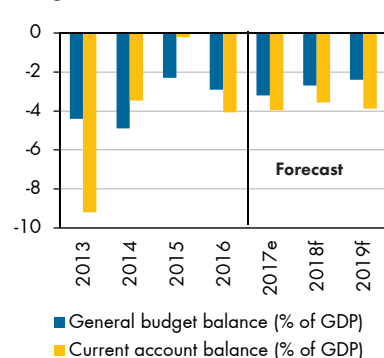
- Strong growth persisting for the time being
- Inflation moving above the target
- Stable FX market with slightly elevated pressure
- Expected Eurobond placement after finalisation of the IMF review

Real GDP (% yoy)



Source: National sources, RBI/Raiffeisen RESEARCH

Budget and current account balance



Source: National sources, RBI/Raiffeisen RESEARCH

Ukraine's economy posted strong growth for the fourth quarter in a row. According to preliminary estimates, GDP increased by 2.4% yoy in Q2 after rising by 2.5% qoq in Q1. Economic stabilisation after a few years of crisis led to high investment demand. As a result, capital investments went up by 22.5% yoy in H1 2017, while construction rose by 24.2% in January–July. Moreover, real wages grew by 19.3% yoy in January–July and triggered a significant rise in private consumption. Thus, we observed 8% yoy growth in retail sales for the first seven months of the year. On the other hand, the economic blockade in the Donbas area hit the coal mining industry dramatically, which in turn resulted in a contraction in coke production and metallurgy. Industrial production dropped by 0.7% yoy in January–July. Meanwhile, inflation accelerated to 16.2% yoy in August owing to the adverse weather conditions, rising above the central bank's projected trajectory. We see growing risks that CPI may finish 2017 above the regulator's target of 8% +/- 2 pp and forecast 11% yoy growth. **We expect a gradual slowdown of GDP growth by the end of the year on the back of base effects** (GDP expanded by 2.3% yoy in Q3 2016 and by 4.8% yoy in Q4 2016). We estimate economic growth of at least 1.5% yoy in 2017, with upside risks to this forecast.

Meanwhile, the FX market was stable. Despite some devaluation in the summer the Ukrainian financial market looks much stronger now. Gross international reserves reached USD 18 bn in August, and the finalisation of the pension reform this autumn will open the door for the next IMF tranche that will also contribute to reserve replenishment. Finally, the yield on Ukrainian Eurobond issues plunged to the lowest level since the restructuring and the ministry of finance has already started talks with investors. Thus, **we believe that Ukraine may return to the external borrowing market in the very near future**, likely after approval of the pension reform and finalisation of the IMF review.

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

Key economic figures and forecasts

	2013	2014	2015	2016	2017e	2018f	2019f
Nominal GDP (EUR bn)	135.3	99.9	81.7	84.3	93.0	93.6	90.7
Real GDP (% yoy)	0.0	-6.6	-9.8	2.3	1.5	3.0	3.0
Industrial output (% yoy)	-4.3	-10.1	-13.0	2.8	0.0	4.0	4.0
Unemployment rate (avg, %)	7.2	9.3	9.1	9.3	9.0	8.5	8.5
Nominal industrial wages (% yoy)	7.9	6.0	20.5	23.6	15.0	10.0	10.0
Producer prices (avg, % yoy)	-0.1	17.1	36.0	20.5	25.2	10.8	5.7
Consumer prices (avg, % yoy)	-0.2	12.1	48.7	13.9	13.6	7.8	6.1
Consumer prices (eop, % yoy)	0.5	24.9	43.3	12.4	11.0	6.5	5.5
General budget balance (% of GDP)	-4.4	-4.9	-2.3	-2.9	-3.2	-2.7	-2.4
Public debt (% of GDP)	40.7	52.9	72.3	76.1	71.4	65.9	62.3
Current account balance (% of GDP)	-9.2	-3.5	-0.2	-4.1	-4.0	-3.6	-3.9
Official FX reserves (EUR bn)	14.8	6.2	12.2	14.7	16.9	17.7	18.2
Gross foreign debt (% of GDP)	79.3	95.2	130.9	121.7	112.7	106.9	101.6
EUR/UAH (avg)	10.8	15.9	24.3	28.3	30.2	33.2	37.0
USD/UAH (avg)	8.2	12.0	22.0	25.6	26.5	27.7	28.9

Source: National sources, RBI/Raiffeisen RESEARCH

End of year expected to be positive

- Equity markets supported by very robust economic conditions
- Local central banks maintain expansive monetary policy
- Many CEE indices still feature moderate valuations
- Still no normalisation of political relations with Russia

During the third quarter of 2017, almost all of the CEE equity markets we cover were able to post significant outperformance compared to their counterparts in the established economies. While the US equity markets registered solid gains, including some new all-time highs (S&P 500), the established European equity markets took a breather and experienced a temporary setback. Although overall economic conditions and the reporting seasons on both sides of the Atlantic were once again strong, the gradual appreciation of EUR versus USD and the diesel emissions scandal hampered the performance of the European stock markets. Aside from the tensions with North Korea, the main source of uncertainty in the final quarter of the year may primarily turn out to be the possible US government shutdown, which has now merely been postponed to December. By contrast, the elections in Europe (Austria: 15 October) will probably not attract much attention on the equity markets. In relation to monetary policy and liquidity, we currently expect a more gradual path of interest rate hikes in the USA, while a turnaround in monetary policy has still not even been announced yet in Europe. Considering the very good economic conditions, we expect sentiment on the international equity markets to remain positive.

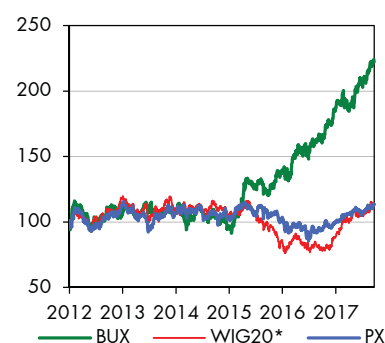
Following a sluggish start to the year, the **Russian MICEX** index was able to catch up significantly during the third quarter. This rebound was borne by increases in the price of oil, which rose on the back of recently weaker data on oil inventories and expectations of robust demand in the second half of the year. Moreover, there have also recently been more and more reports that the cartel may decide at its November meeting to extend the production cap agreement between the OPEC and non-OPEC countries until the spring of 2018. We believe that the upward trend in oil prices will thus continue in Q4. Nonetheless, in the first half of 2018 the impact of oil price developments may lead to temporary underperformance by Russian equities (which should, however, maintain an upward trend), as an end to the agreement is being priced in, and demand is also expected to be weaker in line with seasonal trends. Another area of focus was the financial sector, since the largest fully private bank Otkritie had to be bailed out by the central bank, as deposits dried up. The emergency measures prevented any major disruption in the financial system. Taking a one-year perspective, the MICEX should see generally positive performance, thanks to the economic recovery.

Value matrix stock markets

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

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 RESEARCH Source: RBI/Raiffeisen RESEARCH

CE core equity indices

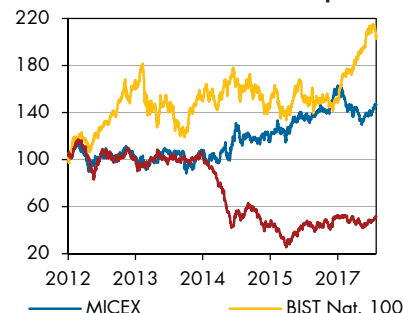


In local currency

* due to the short data history of the WIG 30 index we still use the WIG 20

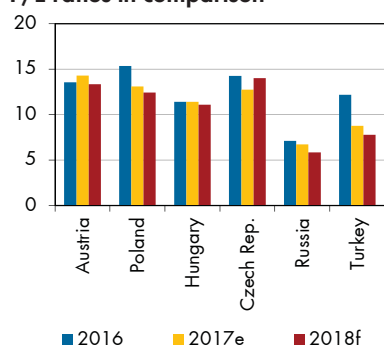
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

MICEX & BIST 100 Nat. vs oil price



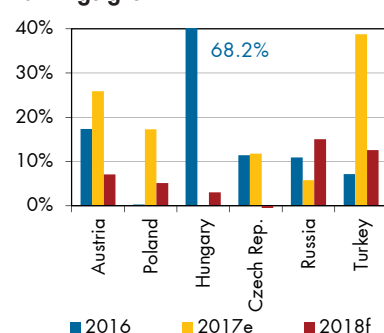
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

P/E ratios in comparison



Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

Earnings growth



Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

ery in Russia. Furthermore, as another supportive factor the central bank should be able to continue its cycle of interest rate cuts as inflation falls. From the perspective of valuations, we believe that Russia's leading index is still trading at too much of a discount compared to the other Emerging Markets, especially with the very robust consensus figures for projected earnings growth this year and next year (2017e 5.8%, 2018f 15.1%). Considering the generally positive conditions, we expect the MICEX to rise towards the year-end as well as over a one-year horizon. Q4: **Buy**.

In Q3 2017, the **Polish WIG 30** equity index outperformed the developed markets once again. Economic activity looks even better than expected, prompting us to upgrade our estimate for 2017 GDP growth from 3.8% to 4.0% and our forecast for 2018 growth from 3.1% to 3.2%. Despite the increasingly tight conditions on the labour market, not much wage pressure has built up so far, and thus we only expect to see an initial rate hike during the second half of 2018, due to the very slow rise in inflation. The political disputes (labour market reforms and treaty infringement proceedings in relation to the planned judiciary reform, etc.) with the EU continue, but we believe that the effects of this on the local equity market will be quite limited. In terms of fundamentals, following an impressive increase in aggregate earnings estimated at around 17.3% for 2017, we now forecast a slowdown in earnings growth to 5.1% for 2018. The resulting valuation for this market (2017e PER: 13.1 and 2018f PER: 12.4) still appears moderate, in our opinion. Even though Polish politics is still a factor of uncertainty, we believe that the very positive economic conditions will continue to set the tone. Q4: **Buy**.

The **Czech equity market index** did lag somewhat behind its regional counterparts in a direct comparison. In the meantime, economic growth has accelerated considerably, prompting us to upgrade our previous projections for both 2017e (from 2.7% to 4.3%) and 2018f (from 2.5% to 3.4%). The excellent economic development enjoys widespread support and is largely being driven by demand, although we see limited potential for the strong trend to strengthen any more, due to the very high level of employment. In light of the risk of rising inflation, in early August the Czech central bank moved to increase the key interest rate by 20 basis points to the current level of 0.25%, in its first rate hike since 2008. During the final quarter of the year, we anticipate another rate increase of 25 basis points. Turning to politics, general elections are slated for 20-21 October, but we do not think that this will have any major impacts on the local equity market in the Czech Republic. Estimated 2017 aggregate earnings growth for the index have now risen to 11.8%, whereas current projections point to a decline in earnings of 9.0% for 2018. The resulting 2018f PER of 14.0 leaves the index with a valuation that is just barely still in moderate territory. Nevertheless, with an eye to the robust economic data and an improving rating from Fitch in early September,

Stock market indicators

	Earnings growth			Price/earnings ratio			Dividend yield
	2016	2017e	2018f	2016	2017e	2018f	2017e
ATX	17.4%	25.9%	7.1%	13.5	14.3	13.3	2.9%
WIG 30	0.3%	17.3%	5.1%	15.3	13.1	12.4	2.2%
BUX	68.2%	0.1%	3.0%	11.4	11.4	11.1	2.4%
PX	11.4%	11.8%	-9.0%	14.3	12.8	14.0	5.2%
MICEX	10.9%	5.8%	15.1%	7.1	6.7	5.8	5.1%
BIST Nat. 100	7.2%	38.8%	12.6%	12.2	8.8	7.8	3.8%

Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

we continue to take a positive view of this market, even though we do not expect to see any outperformance by this market. Q4: **Buy**.

The **Hungarian** key index **BUX** also benefited from the international conditions to a disproportionate extent. Macro-economic conditions remain very good, although growth in the second quarter ran against the global trend and weakened slightly (following surprisingly strong performance in Q1). Despite this, our projections for 2017 as a whole remain positive, at 3.8%, and 3.6% for 2018f. Moreover, in the course of its latest rating review at the end of August, S&P upgraded the outlook from stable to positive, but Hungary's country rating remains unchanged at BBB-. We also expect that the very expansive monetary policy of the Hungarian central bank will remain in place for quite some time, in order to avert any appreciation of the Hungarian forint. On an adjusted, aggregate basis, the anticipated decline in earnings in 2017e of 7.2% has now improved to +0.1%, and for 2018f we are currently projecting an increase of 3.0% in earnings. The resulting PER of 11.1 for 2018f appears relatively attractive to us. Q4: **Buy**.

The **BIST 100 index** has been the strongest market in our equity market universe, with a gain of almost 40% since the beginning of the year, supported by waning political uncertainty and burgeoning economic activity. With GDP growth of 5.1% yoy and 2.1% qoq for the second quarter, the economic recovery in Turkey appears to be on track, and the further increases in the purchasing managers' index for manufacturing over the summer months also point to robust economic data for Q3. In light of this strong recovery, the projected economic growth rates for 2018 may decline somewhat, but conditions remain positive. Consequently, corporate earnings should be well supported. That said, we believe that the currently projected growth rate of almost 39% yoy for 2017 is somewhat too high (presently around 20%). By contrast, the anticipated increase of 13% in 2018 looks realistic. In particular, the market's attractive valuation compared to other markets (2018f PER of 7.8) suggests that further price increases will be on the agenda. Q4: **Buy**.

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

Index estimates

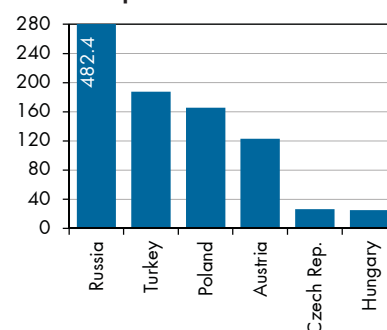
	21-Sep ¹	Dec-17	Mar-18	Jun-18	Sep-18	Recommendation
ATX	3,297	3,450	3,500	3,600	3,480	BUY
Performance		4.6%	6.2%	9.2%	5.6%	
Range		3.000 - 3.700	3.100 - 3.800	3.200 - 3.900	3.100 - 3.900	
MICEX	2,860	3,020	3,150	3,200	3,060	BUY
Performance		5.6%	10.1%	11.9%	7.0%	
Range		2.600 - 3.300	2.700 - 3.400	2.800 - 3.500	2.800 - 3.500	
WIG 30	38,109	40,500	42,500	42,700	41,000	BUY
Performance		6.3%	11.5%	12.0%	7.6%	
Range		34.300 - 43.400	36.500 - 45.500	38.300 - 45.700	36.900 - 45.700	
BUX	1,048	1100	1140	1150	1110	BUY
Performance		5.0%	8.8%	9.8%	5.9%	
Range		900 - 1.200	1.000 - 1.300	1.000 - 1.300	1.000 - 1.300	
PX	2,060	2,170	2,200	2,150	2,220	BUY
Performance		5.3%	6.8%	4.4%	7.8%	
Range		1.900 - 2.400	2.000 - 2.400	1.900 - 2.400	1.900 - 2.400	
BIST Nat. 100	104,001	109,000	112,000	112,500	110,000	BUY
Performance		4.8%	7.7%	8.2%	5.8%	
Range		93.600 - 116.700	98.100 - 119.900	100.800 - 120.400	99.000 - 120.400	

In local currency

¹ 11:59 p.m. (CET)

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

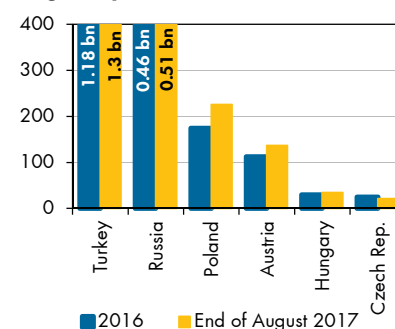
Market capitalisation overview



In EUR bn; cut off for data: 9/21/2017

Source: Bloomberg, RBI/Raiffeisen RESEARCH

Avg. daily turnover (EUR mn)



Source: FESE, WFE, RBI/Raiffeisen RESEARCH

ATX should continue to shine

- Robust economic activity
- Attractive earnings prospects
- Valuations on the rise recently

Value matrix*

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

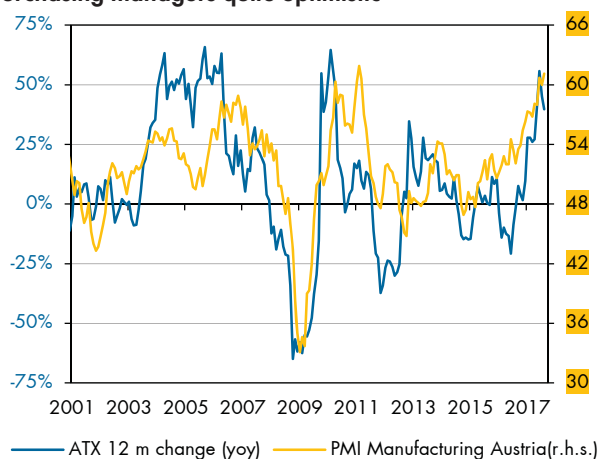
Source: RBI/Raiffeisen RESEARCH, Raiffeisen Centrobank

The **Austrian equity market** has performed exceptionally well so far this year, and the appreciation of the euro was only able to briefly undermine this. Since the start of the year, the ATX index has registered a gain of around 26%, making it one of the strongest performers in the euro area. The index's outperformance was mainly driven by the robust economic activity in Austria and its neighbouring economic region. Another positive factor was that the index heavyweight OMV was able to post strong gains, running against the trend the oil price and the global energy sector. Real estate sector equities – which play a key role in the index – also posted strong gains in the past period. As part of a review of the index, on 18 September AGRANA and S IMMO were added to the ATX, whereas conwert and Flughafen Wien were removed.

Both looking to the end of the year and over a one-year horizon, we expect the ATX to continue rising, although the pace of the gains will slow down somewhat. The projection that the trend will continue is based on the **development of earnings and economic growth**, both of which we expect to be strong. There have

been further indications recently that the economy is humming along at a much healthier clip than it has in quite some time. For instance, the generally very reliable purchasing managers' index for the manufacturing segment recently hit 61.1 points, advancing to the second highest reading for this indicator since the start of the survey in 1998! Hence, it should come as no surprise if some weaker data are released in the coming months. There are also many signs of a very favourable economic environment in the euro area and in the Eastern European economies, which are important sales markets for many Austrian companies. Based on these positive conditions, our growth forecasts for Austria are also quite robust. In terms of numbers, we now expect real GDP growth of 2.8% in 2017 (up from the previous estimate of 2.2%), driven by private consumption and investment activity. Exports and the construction industry are also powering growth. In 2018, economic output is forecast to expand

Purchasing managers quite optimistic



Source: Thomson Reuters, Markit, RBI/Raiffeisen RESEARCH

Sector structure of the ATX

Sector	Company	Weight
Financials	Erste Group, Raiffeisen Bank International, Uniqa, Vienna Insurance Group	33.0%
Energy	OMV, SBO	16.9%
Materials	Lenzing, RHI, voestalpine	15.6%
Industrials	Andritz, Österreichische Post, Wienerberger, Zumtobel	14.7%
Real Estate	BUWOG, CA Immobilien, Immofinanz, S IMMO	14.6%
Telecommunication	Telekom Austria	2.0%
Utilities	Verbund	2.6%
Consumer Staples	Agrana	0.7%

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

at a rate of 2.2%, which is well higher than the potential. Austria is thus heading for excellent economic performance again, after years of underperformance. It is possible, however, that in the year to come the market will begin wondering whether economic momentum has already passed its peak.

The ECB's **monetary policy** continues to be an additional important factor. The announcement that bond purchases would be scaled back has already been priced in by the markets, and the monetary policy bias remains extremely expansive, as we expect that the first interest rate hike will only occur in early 2019. Therefore, we only see moderate upside potential for yields on the secondary market. This will keep **refinancing costs** for companies **low** and make the equity market look more attractive than the bond market in terms of valuations (current risk premium of around 700 basis points).

From an absolute perspective, however, the **valuation** of the ATX has increased substantially over the last year, which means that the market is no longer so cheap. According to our estimates, the Austrian benchmark index will feature a price-earnings ratio of 14.3 for 2017. Therefore, the discount versus its Western European peers has also diminished.

We expect support to come from **corporate earnings**. Our aggregated adjusted estimates point to corporate earnings growth of 25.9% for the ATX in 2017, which should be followed by an increase of 7% in 2018. With regard to earnings, the general elections scheduled for 15 October may also provide some support, as the three in surveys leading parties have floated the idea of decreasing taxes and non-wage labour costs.

Summary: On the whole, the strong economic activity and robust earnings growth, paired with the ongoing expansive monetary policy, suggest that the **upward trend** in the key index for Vienna's stock exchange **should continue**. However, in light of the very good performance seen in the last 12 months, the pace of the increases will likely be somewhat slower.

Financial analyst: Christian Hinterwallner, CEFA, RBI Vienna

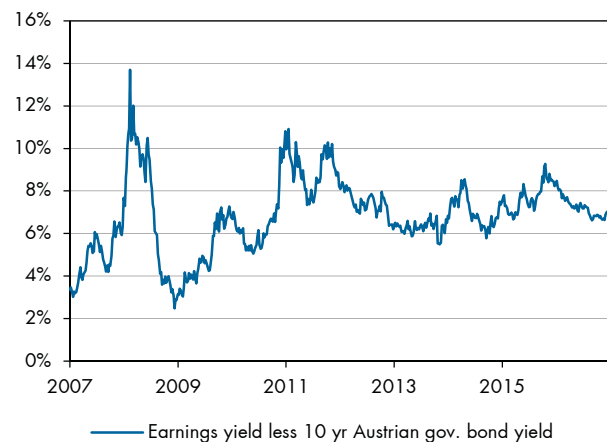
Valuation and forecasts

	21-09 ¹	Dez.17	Mär.18	Jun.18	Sep.18
ATX forecast	3,297	3,450	3,500	3,600	3,480
Expected performance		4.6%	6.2%	9.2%	5.6%
Range		3,000 - 3,700	3,100 - 3,800	3,200 - 3,900	3,100 - 3,900

¹ 11:59 p.m. (CEST)

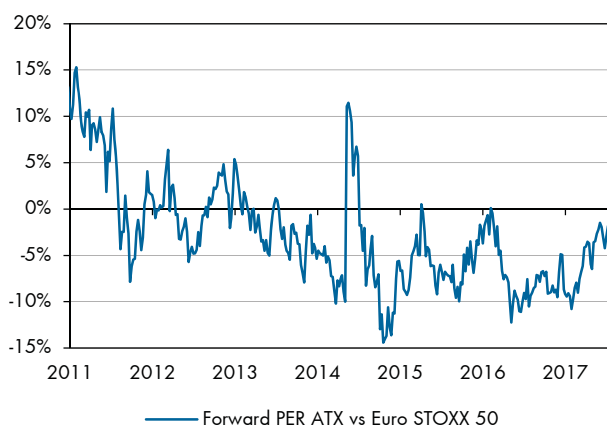
Source: RBI/Raiffeisen RESEARCH, Raiffeisen Centrobank

Equity risk premium still attractive



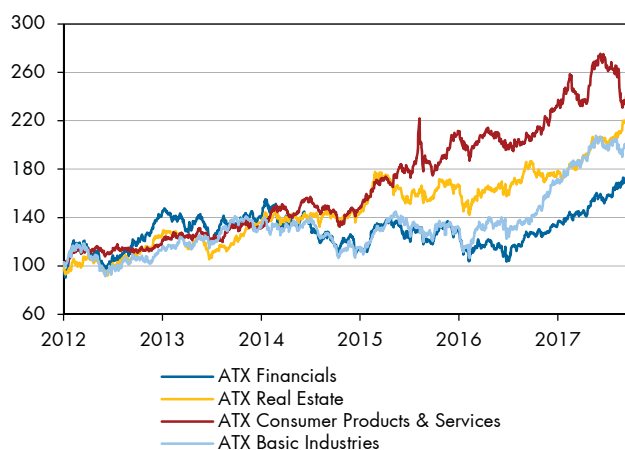
Source: Thomson Reuters, IBES, RBI/Raiffeisen RESEARCH

ATX discount melting



Source: Thomson Reuters, IBES, RBI/Raiffeisen RESEARCH

Sector indices in comparison



rebased to 100

Source: Bloomberg, RBI/Raiffeisen RESEARCH

Stock Markets: upwards, prolonged

ATX



.ATX, 15/09/2017, 06:10 a.m. (CEST), 5y high: 2,836, 5y low: 1,957
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

ATX

Last: 3,283

BULLISH

As our target 3,240, the upper Fibonacci band, is about to get crossed a further stretch towards the second target 3,350 and subsequently even 3,570, the trend-channel's rising-resistance line should lie ahead. The stop has been trailed from 3,090 to 3,140. Retracements to about 3,180 would be considered as a chance to buy at the cheap.

Position:

Long -> 3,350 – 3,570
Stop 3,140

BIST National 100



.XU100, 15/09/2017 07:55 a.m. (CEST), 5y high: 110,423, 5y-low: 61,189
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

BIST National 100

Last: 108,244

BULLISH

Just as expected the Symmetrical Triangle has got left behind topside at 90,230 confirming 120,000 as the respective target. The chart now shows signs of weakness by means of the penultimate candle, the Hang Man. In regard of this the stop gets trailed from 97,500 to 104,500, although a setback to about 100,000 would be regarded as a chance to buy at cheap.

Position:

Long -> 111,810 – 120,000
Stop 104,500

BUX



.BUX, 15/09/2017, 06:30 a.m. (CEST), 5y high 38,098, 5y low 15,687
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

BUX

Last: 38,243

BULLISH

As the sideways trending phase that had begun after our target 31,114 had been hit should be about to end, now it should soon advance towards the next target, i.e. 39,220. The trend-channel (since November 1998) should then get widened towards 41,620. The stop has been trailed from 35,190 to 37,600.

Position:

Long -> 39,220 – 41,620...
Stop 37,600

BET

Last: 8,024

~BULLISH

As our stop got triggered at 8,300 the rising-support line (since 24/06/2016) got hit at 8,000. This now has held firm already twice and the pattern resembles a Double Bottom closely, which is why bullish confirmation at 8,505 and 8,770 subsequently should be expectable, same as an advance towards 9,150. Sell from 7,500 (-> 7,000).

Position:

Buy 8,505 -> 8,770 – 9,150...

Stop 8,095

MICEX

Last: 2,052

~BULLISH

The rebound as outlined in the recent edition has crossed the former major resistance at 1,940 and again now has to prove its strength at the concurrent one that is made of the rising-resistance line and the upper Fibonacci-Retracement both at 2,072. Once crossed headroom would stretch towards 2,180 and 2,305 subsequently. Setbacks to about 2,010 would be understood as chances for buying at the cheap.

Position:

Short -> 1,740 – 1,630

Stop 1,880

WIG 30

Last: 2,891

~BULLISH

2,250 -> 2,830 got scored and a new trend-high marked at 2,936. Crossing this all-time high would indicate a further advance toward 3,160 – 3,415. A setback to about 2,800 cannot be excluded by now, yet should be a chance for buying at the cheap.

Position:

Long -> 3,160 – 3,415

Stop 2,800

Financial analyst: Robert Schittler, CEFA, RBI Vienna

BET



.BETI, 15/09/2017 12:30 a.m. (CEST), 5y high: 8,769, 5y-low: 4,723
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

MICEX



.MCX, 15/09/2017 06:55 a.m. (CEST), 5y high: 2,285, 5y-low: 1,237
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

WIG 30

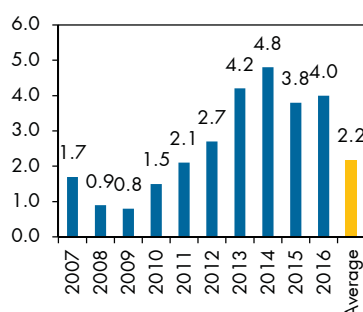


.WIG30, 15/09/2017 07:27 a.m. (CEST), 5y high: 2,775, 5y-low: 1,879
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

The party continues

- Developments continue to be the main driver fuelling rental income and earnings
- There is a strong case for further mergers and acquisitions
- BUY recommendation: S IMMO due to high growth and hidden reserves

vdp Indices for Multi Family Houses

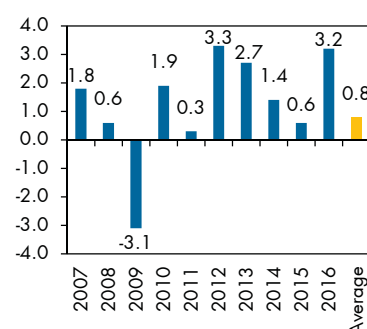


Residential Rents; yoy chg. in %
Source: vdpResearch, Raiffeisen Centrobank

Interest in direct real estate investments continues to be brisk among private and institutional investors bolstered by the strong economy, very low financing costs and lack of attractive investment alternatives. These drivers also benefit real estate shares, which provide indirect exposure to real estate investments with the added advantages of rising rental income as inflation protection and solid dividend yields.

Apart from property letting and management, all listed Austrian real estate companies to a greater or lesser extent also develop properties. As a result, they can expand their property portfolios organically to raise rental income disproportionately or generate additional income from the profitable sale of properties. Additionally, some real estate companies can optimise the liabilities sides of their balance sheets by simplifying the financing structure or cutting financing costs, further enhancing earnings.

vdp Indices for Office Buildings



Office Rents, yoy-chgs. in %
Source: vdpResearch, Raiffeisen Centrobank estimates

Mergers and acquisitions continue to drive real estate shares. Companies with no development business can generate additional growth only via direct purchases of properties or takeovers of real estate companies. In this context, critical mass entails numerous additional advantages for a listed real estate company. For example, companies must have a certain size to place corporate bonds to broaden their financing base and possibly reduce financing costs. Higher market capitalisation also improves the tradeability of real estate shares. Ideally, this leads to inclusion into major real estate indices, which in turn enlarges the investor base considerably.

However, all the positive drivers for real estate shares pointed out above are already discounted in almost all listed real estate companies. We can only identify little additional upside share price potential. S IMMO and UBM Development are our current BUY recommendations in the real estate sector.

Financial analyst: Christian Bader, Raiffeisen Centrobank

Outlook for growth continues to be positive

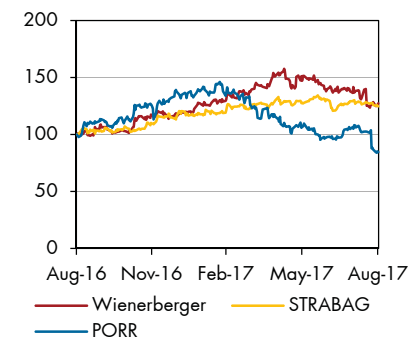
- European construction industry still growing dynamically
- Germany is the main growth driver for STRABAG and PORR
- Q2 reporting season a mixed blessing

The recent Q2 reporting season again underscored the positive picture of the European construction industry. Growth can be expected to continue both this year and in the years to come, even though individual sub-sectors and countries show varying dynamics. Austria's listed construction groups STRABAG and PORR benefit from a solid Austrian home market and above all from Germany, their foremost growth driver. For quite some time, strong momentum has been observed mainly in building construction. The companies also anticipate increasing growth in infrastructure construction. The German government has adopted the "2030 Federal Transport Infrastructure Plan", which is expected to provide the main boost: it envisages investments of some EUR 270 bn to build, refurbish and upgrade roads, railways and waterways. STRABAG – the market leader in the heavily fragmented German construction sector – pursues an organic growth strategy, and PORR has fortified its presence also via acquisitions in the past few months.

The Q2 results of the two groups showed quite different developments. STRABAG's results met expectations. Its construction output expanded by 12% to EUR 3.84 bn, and EBITDA grew from about EUR 187 mn (adjusted for non-recurring income of EUR 28 mn) to EUR 202 mn. PORR, on the other hand, provided a negative surprise and issued a profit warning. The group reported strong growth in construction output (+23% to EUR 1.25 bn in Q2, helped by consolidation effects). By contrast, management revised its goal of improving pre-tax profit and now anticipates a slight decrease. The group cited higher integration costs for acquired companies as well as higher costs for projects in Qatar (due to political restrictions) and for sub-contractors in Germany. Both companies registered higher order backlogs and new record order levels. The order backlog of STRABAG increased by 7% to EUR 16.5 bn, and PORR's order backlog was up 4% at EUR 5.7 bn.

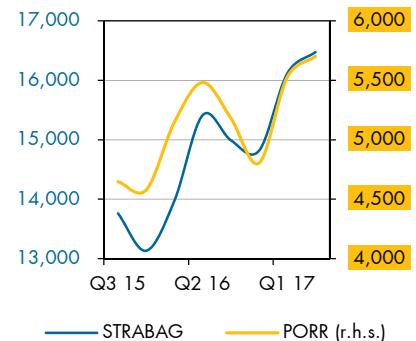
The Q2 results of Wienerberger – Europe's largest brick producer – were largely in line with market expectations (sales revenues +1% to EUR 869 mn, EBITDA +4% to EUR 144 mn). Also, the full-year guidance of an EBITDA improvement to EUR 415 mn was confirmed. That notwithstanding, the share was severely punished due to more subdued statements about residential construction activity in Germany (decline in building permits). We believe that the market reaction was exaggerated. The overall upward trend in residential construction was confirmed – both for Europe and the USA.

Share price performance (1 year)



Source: Bloomberg

Order backlog development (EUR mn)



Source: STRABAG, PORR

Financial analyst: Markus Remis, Raiffeisen Centrobank

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Warnings

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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	38.6%	41.2%
Hold recommendations	42.0%	35.3%
Sell recommendations	19.4%	23.5%

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Disclosure aspects

Company	Disclosure
Agrana Beteiligungs AG	3,4,5,6
Agrokor	-
Bulgarian Energy Holding	-
OMV AG	3
OTKRITIE	-
PORR	3
S IMMO	3,6
STRABAG SE	3,4,5
UBM Development	3
Wienerberger	3,6

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			HU			PL			RO			RU			TR		
	2y	10y	CZK	2y	10y	HUF	2y	10y	PLN	2y	10y	RON	2y	10y	RUB	2y	10y	TRY
25/08/2016	H	H	H	B	B	H	H	H	H	H	H	H	B	B	H	S	S	S
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
27/04/2017	I	I	I	I	I	I	I	I	S	I	I	I	B	B	I	I	H	S
06/06/2017	I	H	I	I	B	I	I	B	H	I	I	I	I	I	I	B	I	H
20/06/2017	I	I	H	I	H	I	I	I	B	S	S	I	I	I	I	I	I	I
24/08/2017	S	S	S	I	I	S	I	I	H	H	H	H	I	I	I	I	I	I
07/09/2017	I	I	H	B	I	H	I	I	I	I	I	I	I	I	I	I	I	I
21/09/2017	I	I	B	I	I	I	I	I	I	I	I	I	I	I	I	I	I	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		HR		CZ		HU		KZ		LT		PL	
	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD
26/08/2016	H	-	S	S	H	-	H	H	-	H	H	H	H	H
26/09/2016	B	-	B	S	I	-	I	I	-	I	I	I	B	I
21/10/2016	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
15/12/2016	I	-	I	H	I	-	I	I	-	I	I	B	I	I
24/01/2017	I	-	I	I	I	-	I	I	-	H	B	I	I	I
24/02/2017	I	-	B	I	I	-	I	I	-	I	I	I	I	I
15/03/2017	I	-	I	I	I	-	I	I	-	I	H	H	I	I
27/04/2017	I	-	H	I	I	-	I	B	-	I	S	I	B	I
06/06/2017	B	-	I	B	I	-	I	H	-	I	H	I	H	I
20/06/2017	I	-	I	H	I	-	I	I	-	I	I	I	B	I
07/09/2017	H	-	I	I	I	-	I	I	-	B	I	I	H	I
21/09/2017	I	-	I	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

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	RO		RU		RS		TR		UA		BY		MK	
	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD
26/08/2016	H	H	H	H	-	H	S	S	-	H	-	H	B	-
26/09/2016	I	I	I	I	-	B	H	H	-	I	-	I	I	-
21/10/2016	I	I	I	I	-	I	B	B	-	B	-	S	I	-
28/11/2016	B	I	S	S	-	I	H	H	-	H	-	I	I	-
15/12/2016	H	I	H	I	-	I	I	I	-	S	-	I	H	-
24/01/2017	I	I	I	I	-	H	I	I	-	I	-	H	I	-
24/02/2017	I	I	I	I	-	I	I	I	-	I	-	I	I	-
15/03/2017	B	B	I	H	-	I	I	I	-	I	-	I	B	-
27/04/2017	H	H	I	I	-	I	I	I	-	I	-	B	H	-
06/06/2017	I	I	I	I	-	S	I	I	-	H	-	H	B	-
20/06/2017	I	I	I	I	-	I	B	B	-	I	-	I	I	-
07/09/2017	I	I	I	I	-	H	I	I	-	B	-	I	I	-
21/09/2017	I	I	I	I	-	I	I	I	-	I	-	B	I	-

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

Corporate Credits

Recommendations history for 12 months

OTKRITIE			
ISIN	Date of past recommendation	Company	Recommendation
XS1503160571	08/06/2017	OTKRITIE	Buy

Bulgarian Energy Holding			
ISIN	Date of past recommendation	Company	Recommendation
XS1405778041	13/07/2017	Bulgarian Energy Holding	Buy
XS1405778041	16/11/2016	Bulgarian Energy Holding	Buy
XS0989152573	04/11/2016	Bulgarian Energy Holding	Buy

Equities

Recommendation history

STRABAG SE: 5y high: EUR 38.9, 5y low: EUR 15.59

	Rating	Target Price	Prev. day's close	Upside
31/08/2017	Buy	41.50	36.29	14.4%
15/05/2017	Buy	41.50	37.40	11.0%
07/12/2016	Buy	39.00	33.00	18.2%
01/09/2016	Hold	32.00	29.00	10.3%
13/05/2016	Hold	31.50	28.58	10.2%

PORR: 5y high: EUR 41.31, 5y low: EUR 5.825

	Rating	Target Price	Prev. day's close	Upside
24/08/2017	Hold	27.00	24.89	8.5%
26/04/2017	Hold	35.00	33.28	5.2%
17/03/2017	Hold	37.50	37.00	1.4%
30/11/2016	Hold	37.50	35.78	4.8%
31/08/2016	Buy	34.50	28.65	20.4%
22/04/2016	Buy	34.00	27.00	25.9%
30/11/2015	Buy	30.50	24.55	24.2%
15/10/2015	Buy	30.50	23.30	30.9%

Wienerberger: 5y high: EUR 22.445, 5y low: EUR 5.532

	Rating	Target Price	Prev. day's close	Upside
18/08/2017	Buy	23.00	17.87	28.7%
24/05/2017	Buy	24.00	20.22	18.7%
24/02/2017	Hold	21.00	18.66	12.5%
30/09/2016	Hold	18.00	15.50	16.1%
04/05/2016	Hold	18.00	16.95	6.2%
04/03/2016	Hold	18.00	16.45	9.4%
13/11/2015	Hold	16.50	14.20	16.2%

Recommendation history

S IMMO: 5y high: EUR 14.6, 5y low: EUR 4.5

	Rating	Target Price	Prev. day's close	Upside
11/08/2017	Buy	15.00	12.75	17.6%
02/06/2017	Hold	13.00	12.60	3.2%
02/03/2017	Hold	12.00	11.75	2.1%
30/11/2016	Hold	10.90	10.06	8.4%
26/08/2016	Buy	10.90	8.79	24.0%
31/03/2016	Hold	8.90	8.07	10.4%
05/01/2016	Hold	8.35	8.25	1.2%

UBM Development: 5y high: EUR 43.8, 5y low: EUR 12.405

	Rating	Target Price	Prev. day's close	Upside
06/09/2017	Buy	44.00	39.49	11.4%
19/05/2017	Hold	38.40	37.00	3.8%

Coverage universe recommendation overview

	buy	hold	reduce	sell	suspended	UR
Universe	55	60	7	4	2	2
Universe %	42%	46%	5%	3%	2%	2%
Investment banking services	21	27	3	0	1	1
Investment banking services %	40%	51%	6%	0%	2%	2%

Source: Raiffeisen Centrobank, rounding differences may occur

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