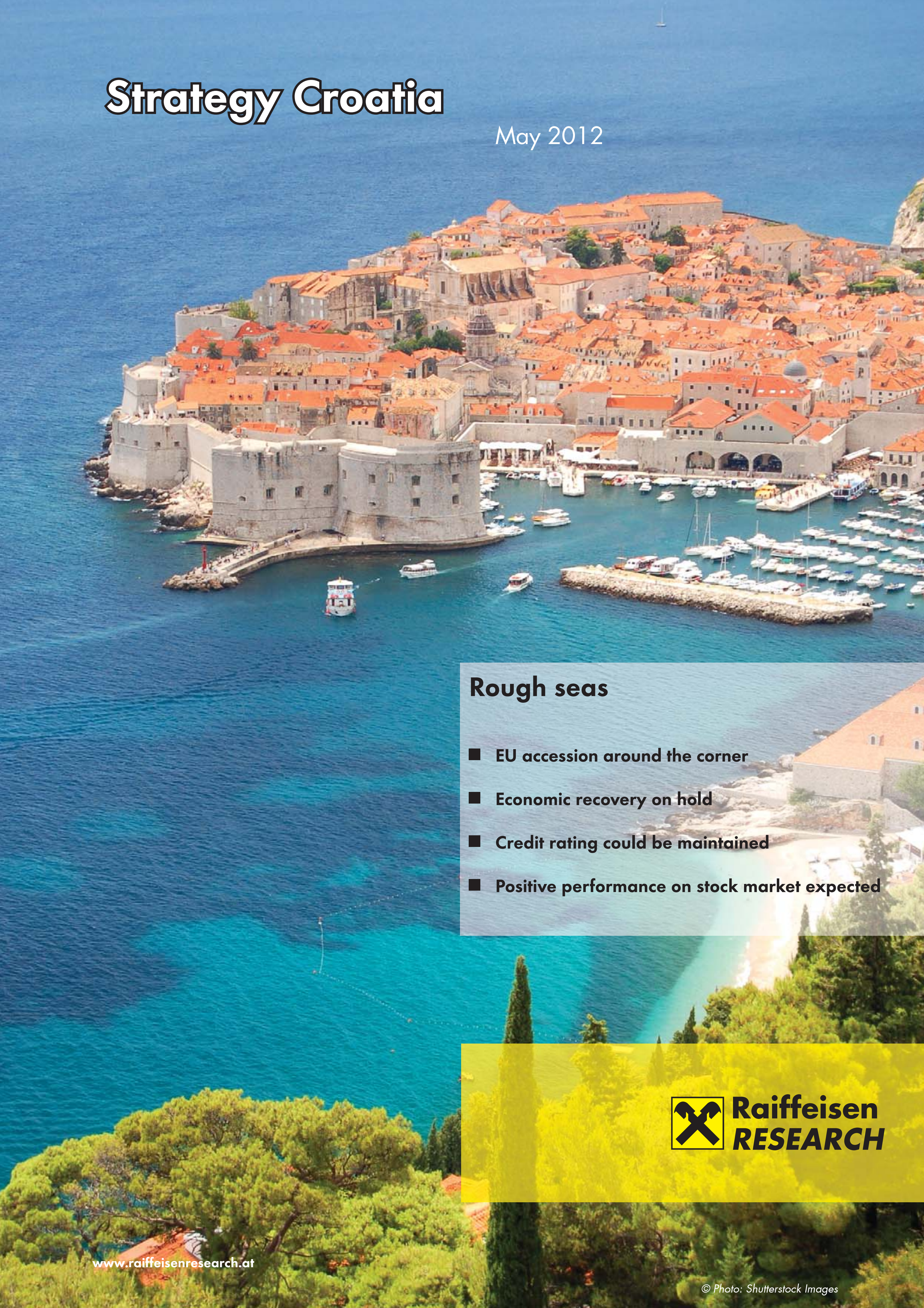
Strategy Croatia

May 2012



Rough seas

- EU accession around the corner
- Economic recovery on hold
- Credit rating could be maintained
- Positive performance on stock market expected

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Content

Explanation:
e ... estimate
f ... forecast
p ... preliminary figures

Abbreviations
Currencies and Countries

ALL	Albanian lek
BAM	Bosnian marka
BGN	Bulgarian lev
BYR	Belarusian roubel
CZK	Czech koruna
EKK	Estonian kroon
HUF	Hungarian forint
HRK	Croatian kuna
LTL	Lithuanian litas
LVL	Latvian lats
PLN	Polish zloty
RON	Romanian leu
RSD	Serbian dinar
RUB	Russian rouble
SIT	Slovenian tolar
SKK	Slovak koruna
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
FDI	Foreign Direct Investments
FX	Foreign Exchange
FY	Full year
GDP	Gross Domestic Product
LCY	Local Currency
mmav	month moving average
mom	month on month
pp	percentage points
PPI	Producer Price Index
qoq	quarter on quarter
T/B	Trade Balance
ULC	Unit Labour Costs
yoy	year on year
ytd	year-to-date

Stock Exchange Indices

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

Equity related

DY	Dividend yield
EG	Earnings growth
LTG	Long term (earnings) growth
P/E	Price earnings ratio
RS	Recommendation suspended
UR	Under Revision
Eurozone	*Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovenia, Slovakia, Spain*
CE	*Central European countries - Poland, Hungary, Czech Republic, Slovakia, Slovenia*
SEE	*South East European countries - Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Romania, Serbia*
CIS	*European CIS (Commonwealth of Independent States) countries - Russia, Ukraine, Belarus*
CEE	*Central and Eastern Europe (CE + SEE + CIS)*

Highlights

On 4 December 2011, the Alliance for Change (opposition before the elections), comprised of four parties (Social Democrat Party (SDP), Croatian People's Party – Liberal Democrats (HNS), Istrian Democratic Assembly (IDS) and the Croatian Party of Pensioners (HSU)) won the parliamentary elections and formed the new government. Despite winning an overwhelming majority of seats in parliament, the new government did not go for decisive and quick reforms, but rather opted for a more gradual (step-by-step) approach, directed at reducing budgetary expenditures and driving public investments. Furthermore, following a six-year negotiation process, the Accession Treaty between the European Union (EU) and Croatia was signed in December 2011 and ratified by the Croatian parliament in March 2012. The Croatian citizens approved the European Union with a majority vote in the referendum (66%), enabling Croatia to join the EU on 1 July 2013. Croatia has failed to post positive economic growth results since 2009. In contrast to the government's optimistic projections of 0.8% yoy real GDP growth in 2012, our expectations and first quarter indicators point to economic contraction with prominent negative developments in H1 2012. In only three years, the deficit rose to over 5% of GDP and the growth of public debt exceeded 55%, with 70% higher expenditures for interests.
In the coming months economic policymakers will be faced with two main issues: implementing a credible fiscal policy (consolidating budgetary expenditures) and structural changes aimed at creating preconditions for economic growth, which in that case should not be expected before 2013 and headed by investments.
The prices of Croatia's Eurobond issues will mainly follow regional developments. Further narrowing of spreads will largely depend on better fundamentals. The insecurity of the outlook of Croatia's medium-term GDP growth, the success of fiscal consolidation and implementation of reforms will surely continue to hold the prices of Croatian issues at relatively high levels. We do not inevitably expect a rating change of S&P, Moody's or Fitch agencies. However, a downgrade would mean a good, cheap investment opportunity.
The Croatian market is one of the smaller markets by international standards. Nevertheless, we expect that the importance of the ZSE will increase in light of Croatia's impending accession of the European Union and consequently there should be a rise in trading volumes, the historically low level of which is currently putting off non-residents from larger portfolio investments. The upcoming privatisations will also have a benign impact on liquidity, as there is still plenty of potential in this field.

Key economic figures: Croatia

	2007	2008	2009	2010	2011	2012e	2013f
Nominal GDP (EUR bn)	43.4	47.5	44.8	45.9	45.9	46.0	47.9
Real GDP (% yoy)	5.1	2.1	-6.9	-1.2	0.0	-1.0	1.0
Industrial output (% yoy)	5.6	1.6	-9.2	-1.5	-1.2	-3.5	-1.0
Producer prices (avg, % yoy)	3.4	8.4	-0.4	4.3	6.4	5.0	4.1
Consumer prices (avg, % yoy)	2.9	6.1	2.4	1.1	2.3	3.0	3.0
Avg gross industrial wages (LCY, % yoy)	5.6	6.2	1.4	-0.5	1.0	0.2	0.5
Unemployment rate (avg, %)	14.8	13.2	14.9	17.4	18.0	18.5	18.3
General budget balance (% of GDP)	-2.5	-1.4	-4.1	-4.9	-5.5	-4.3	-3.5
Public debt (% of GDP)	32.9	29.2	35.1	41.2	45.1	52.2	53.7
Current account balance (% of GDP)	-7.3	-9.0	-5.1	-1.0	-1.0	-1.4	-1.5
Official FX reserves (EUR bn)	9.3	9.1	10.4	10.7	11.2	12.0	12.3
Gross foreign debt (% of GDP)	77.7	85.4	101.0	101.2	99.6	103.6	100.8
EUR/LCY (avg)	7.34	7.22	7.34	7.29	7.43	7.56	7.55
USD/LCY (avg)	5.35	4.91	5.26	5.49	5.42	5.69	5.81

Source: Thomson Reuters, CNB, CBS, Raiffeisen RESEARCH

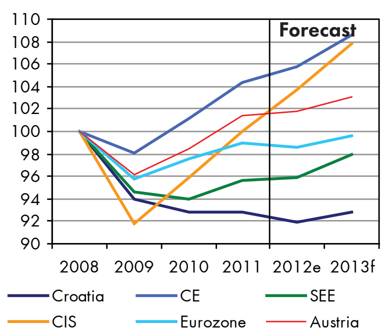
Recommendations (Horizon: March 2013)

Bond markets
Buy
HRK 3y T-bonds
HRK 10y T-bonds
Croatia USD 2017
Croatia USD 2021

Equity market
Buy
Hrvatski Telekom

Hold
Adris
Podravka
Viro
Ericsson Nikola Tesla

Real GDP Index (2008=100)



Source: Eurostat, Thomson Reuters, Raiffeisen RESEARCH

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New Government, old challenges on the path to the EU

- **Opposition coalition (SDP, HNS, IDS and HSU) won the parliamentary elections in December 2011**
- **IMF assistance is no subject of debate for the time being**
- **EU Accession Treaty was signed in December 2011 – Croatia to join the EU on 1 July 2013**
- **Croatia will enjoy multiple benefits by joining the single European market**

Main political parties

Ruling coalition	Party leader
Social Democratic Party (SDP)	Zoran Milanović
Croatian Peoples Party (HNS)	Radimir Čačić
Istrian Democratic Party (IDS)	Ivan Jakovčić
Croatian Pensioners Party (HSU)	Silvano Hrelja
Opposition parties	
Croatian Democratic Union (HDZ)	Jadranka Kosor
Croatian Peasant Party (HSS)	Branko Hrg
Independent Democratic Serbian Party (SDSS)	Vojislav Stanimirović
Croatian Party of Rights (HSP)	Danijel Srb
Democratic Center (DC)	Vesna Škare Ožbolt
Croatian Democratic Alliance of Slavonia and Baranja (HDSSB)	Vladimir Šišljagić
Croatian Labourists - Labour Party	Dragutin Lesar
Croatian Civic Party (HGS)	Željko Kerum
Bosnian Democratic Party of Croatia (BDSH)	Nedžad Hodžić
Croatian Party of Rights dr. Ante Starčević	Ruža Tomašić

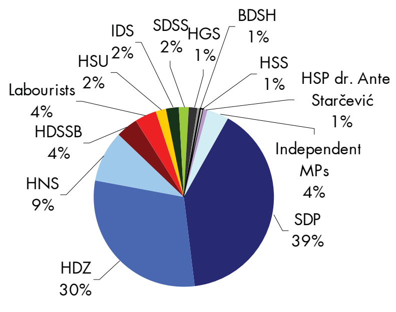
Source: Political parties

Position in public office

Function	Name	Party Affiliation
President of the Republic	Ivo Josipović	
Prime Minister	Zoran Milanović	SDP
President of the Parliament	Boris Šprem	SDP

Source: Government, Parliament, Office of the President

Parliamentary seats (151)



January 2012
Source: Croatian Parliament

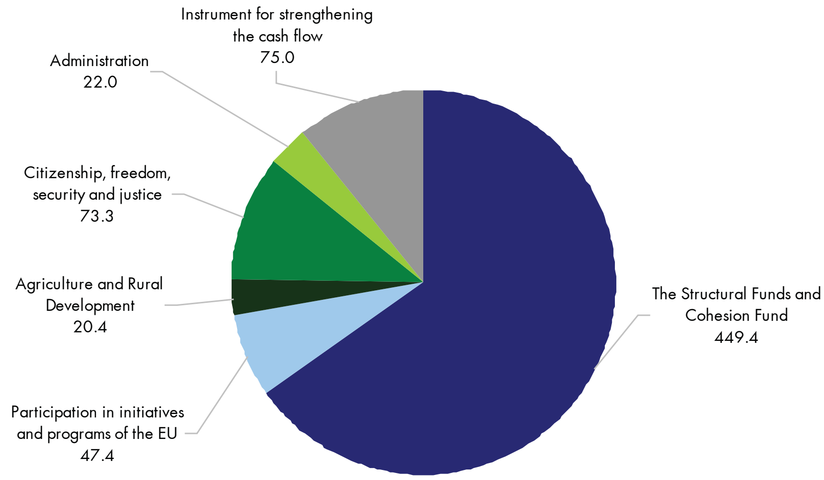
Politics

As expected, at the beginning of December 2011 the opposition coalition consisting of four political parties (SDP, HNS, IDS and HSU) won the majority of votes in the parliamentary elections. The result was expected for different reasons: the ruling HDZ party was burdened by numerous corruption scandals, the economy was suffering from a prolonged recession, and there was a continuous decline in the standard of living. Despite winning an overwhelming majority of seats in parliament, the new government did not go for decisive and quick reforms, but rather opted for a more gradual (step-by-step) approach, directed at reducing budgetary expenditures and driving public investments. The priority of economic policy at the start of the new government's mandate was to maintain the country's credit rating. As a result of restrictive planning in regard to announced labour market reforms and budget expenditures, which for the first time were both nominally and really reduced to 2008 levels, the government managed (for the time being) to remove the threat of Croatia's credit rating falling to below investment grade (junk). The stabilisation of public finances and preservation of the credit rating was also aided by the increase in the tax on consumption (VAT went up to 25%), but this undermined growth in private consumption and indirectly private investments which are hindered by growing consumer pessimism. Stronger fiscal consolidation and the onset of reforms are expected with the first budget review, announced for July. For the time being, it is unlikely that Croatia will seek IMF or EU assistance. Croatia has no problems with liquidity, so the primary role of these institutions would be to support resolute implementation of reforms amidst strong opposition from unions of employees of the public administration and various social groups.

EU integration

Following a six-year negotiation process, the Accession Treaty with Croatia was signed in December 2011 and ratified by the Croatian parliament in March 2012. The Croatian citizens approved the European Union with a majority vote in the referendum (66%), enabling Croatia to join the EU on 1 July 2013. Until then, Croatia will continue the convergence process under the watchful eye of the European Commission. The tone of the first monitoring charts for a six-month period (from 1 September to 29 February) adopted in April was generally positive, but included several critical remarks in relation to certain areas (justice, combating corruption, public procurement, minority rights, etc.). The first full report of the European Commission on Croatia's readiness for membership is expected on 10 October. It is key, due to the fact that some member states (such as Great Britain, the Netherlands and Finland) will not initiate ratification of the Accession Treaty until they are satisfied that Croatia meets its obligations. Although significantly changed circumstances in the European market (e.g. recession, debt crisis) surely limit the positive effects of membership, we think that Croatia will enjoy multiple benefits by joining the single European market. These include higher inflow of capital, a stronger institutional framework, continued reforms and fiscal adjustment. In 2013, Croatia will have at its disposal some EUR 647 mn in structural and cohesion funds, with this figure possibly reaching even 1.3 bn per year (or 2.8% of GDP), according to our estimates. The actual amount will depend on absorption capacity. However, the positive effect is unquestionable, especially taking into account the limited nature of domestic sources of funding and continued high risk aversion in global markets, which together with administrative barriers in the domestic market hinder capital inflow to Croatia.

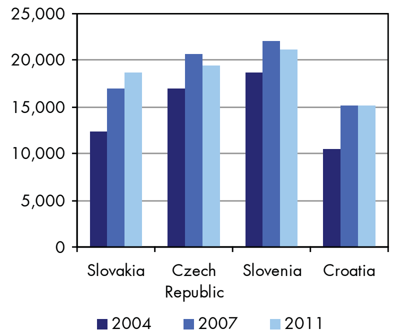
Approved funding of Croatia*



** for the period 01.07.-31.12.2013 (EUR mn at current prices)*
Source: Ministry of Foreign and European Affairs, Financial Package

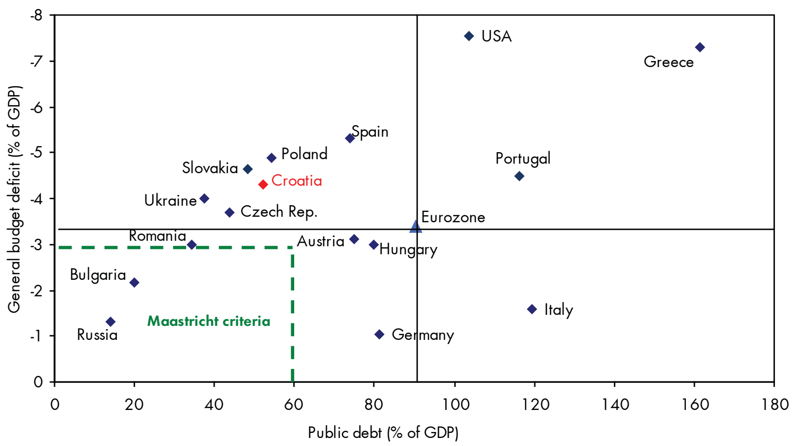
In the period from 2008 to 2011, Croatia's economy shrank by over 7% in real terms. Burdened by numerous internal structural weaknesses (e.g. an uncompetitive economy, low exports of goods, high administrative hurdles, relatively high indebtedness and unfavourable structure of fiscal expenditures), Croatia is the only CEE country which has failed to post positive growth results since 2009. Moreover, in that period Croatia did not use the opportunity to press ahead with key reforms (such as in the pension system, health care and/or education and labour market reforms) necessary for sustainable growth and development. A system in which the government directly or indirectly accounts for over 50% of the economy, in which the ratio between insured persons and retired persons has reached a historical low of 1.19 and in which 70% of budget expenditures are social benefits and employee benefits with minimum room for change in acquired rights but a high tax burden must be considered to be the main cause for low competitiveness, insufficient private investments, a weak labour market (marked by high rigidity, low employment and activity, as well as high unemployment) and the country falling further behind in comparison with CE countries. In addition, there are demographic trends in Croatia, meaning progressive aging of the population as in other European countries which in the long-term bring about a potential negative risk for the fiscal policy and the economy as a whole. In only three years, the deficit rose to over 5% of GDP and the growth of public debt exceeded 55%, with 70% higher expenditures for interests. From a country with relatively low indebtedness (below 40% of GDP), excluding Hungary Croatia has become the country with the highest public debt among comparable countries (60% of GDP including guarantees, the majority of which will be activated at the expense of the central government).

Nominal GDP per capita (EUR at PPP)



Source: Raiffeisen RESEARCH

General budget deficits and public debt (% of GDP)

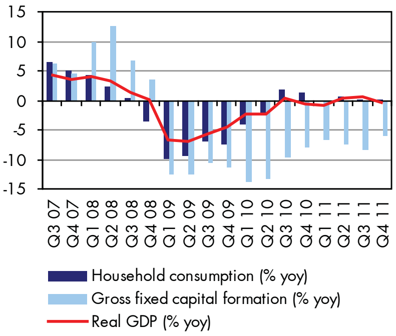


Estimates for 2012
Source: Thomson Reuters, Raiffeisen RESEARCH

Long and difficult road to recovery

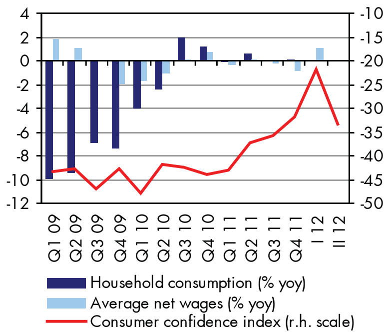
- **No real GDP growth in the last three years**
- **Structural changes needed to create preconditions for economic growth**
- **Reduction in expenditures predominantly through savings**
- **VAT was increased from 23% to 25% and an intermediate VAT rate of 10% for certain products was introduced**

Investments & household consumption



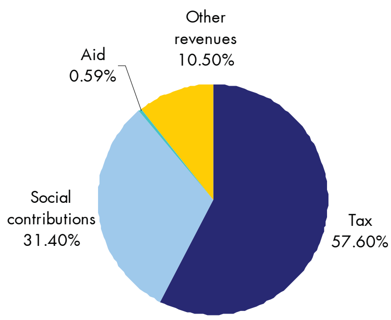
Source: CBS, Raiffeisen RESEARCH

Consumption determinants



Source: CNB, CBS, Raiffeisen RESEARCH

Structure of government revenue



Source: Ministry of Finance

Real economy

In contrast to the government's optimistic projections, which base 0.8% real GDP growth on investments by public enterprises (predominantly in the energy sector infrastructure), our expectations and first quarter indicators point to economic contraction with prominent negative developments in H1 2012. Household consumption is burdened by negative trends in the labour market, reduction in available income and relatively high indebtedness. The government has no alternative but to continue down the road of cutting expenditures. Considering that it will take at least 12 to 18 months to prepare the large investment projects announced by the government, we do not see them being realised this year. Private investments are limited by unfavourable expectations and high financing costs. Finally, restructuring of the exports industry (e.g. shipbuilding, chemical industry) will lead to a reduction in exports with a negative impact on GDP growth. The low share of goods exports in GDP is the reason why the Croatian economy has failed to recover over the previous two years. The problem lies in export supply, dominated by traditionally labour-intensive and resource-intensive sectors with low levels of technological intensity. Still, these trends are expected to be softened by a good tourist season with more overnight stays and higher income. Imports remain reigned in by low domestic demand, but Croatia's high energy dependence leaves room for a higher deficit in the goods account, should energy and goods prices in the global markets increase. In the medium term, the investment potential for domestic and foreign investors lies in the following sectors: energy, (integral) transport, integral production of food (agriculture, food and beverages production) and tourism.

Fiscal policy

In accordance with the Fiscal Responsibility Act, this year's budget brought about a reduction in budget expenditures, which were reduced to the 2008 level. For the first time in Croatian history, in nominal and real terms expenditures were cut by 2.8% yoy (to HRK 118.8 bn). However, the reduction in expenditures was achieved predominantly through savings without any implementation of structural changes or changes to the normative framework, which have been largely limited by the public sector's adjustment to the ongoing crisis.The revenue side of the budget went through a series of changes, with the change in the tax system being partly motivated by the increase in compositeness due to the reduction of the cost of labour. The health care contribution decreased from 15% to 13%, some quasi-fiscal burdens (of 245 in total) were abolished, VAT was increased by 2pp to 25% and an intermediate VAT rate of 10% for certain products was introduced (e.g. oils and fats, children's food, water supply). According to our forecasts, revenue growth will be generated not because of a fundamentally better economic picture, but predominantly through more efficient tax collection, prevention of the so-called grey economy and the rule of law. The fiscal consolidation and restructuring of public sector and government enterprises will surely continue throughout 2013, especially after the local elections announced for May 2013.

Weak inflationary pressures and new impetus to economic recovery

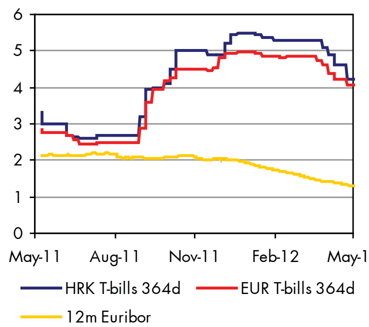
- **Maintaining stable prices has not been a problem for the central bank since 1993**
- **Growing prices of public services and energy paired with higher VAT to generate inflation**
- **EU accession to bring about a convergence (growth) of administratively set prices with EU prices**
- **Lowering regulatory requirements for the banking system released additional liquidity**

The monetary policy pursued by the Croatian National Bank (CNB) over the past twenty years is one of the most restrictive in the region. Its wide range of instruments is aimed to slow down credit growth and, consequently, external exposure. In the three years following 2008, when inflationary pressures were spurred by strong increases in oil and food prices in the world's markets and the inflation rate rose, consumer price growth was very mild. This was supported by the prolonged recession and, accordingly, weak domestic demand. At the beginning of this year, weak growth of consumer prices continued, with inflation being driven only by energy and food prices. Due to weak domestic consumption, the increase of VAT from 23% to 25% will have a limited impact on consumer prices. The strongest influence will be on products for which demand is inelastic to growth in prices (e.g. food products and public services). As a result of higher VAT and an increase in the price of public services and energy, this year's inflation rate is expected to be slightly higher than that of last year (around 3% on average). The rapprochement and accession to the European Union is expected to bring about a convergence (growth) of administratively set prices with EU prices; this process has already begun.

In addition to its main goal of maintaining price stability, the central bank aims at providing support to economic policy. Hence, since the onset of the crisis the CNB has adopted a series of measures to reduce regulatory requirements; these have included releasing additional funds for the approval of loans and helping the recovery of the real sector. At the beginning of the crisis, this increased liquidity was directed towards the government, enabling it to meet its obligations amid conditions of poor access to sources of financing in (both domestic and foreign) capital markets. After raising reserve requirements to 15% at the beginning of 2012 (due to HRK weakening), the CNB finally lowered the rate to 13.5% at the end of Q1, releasing HRK 5 bn into the banking system; in addition to HRK 4 bn from bank sources, this was earmarked for financing export-oriented enterprises (similar to the model introduced in 2010). The biggest challenge will again be to introduce a sufficient number of lending programmes to absorb additional liquidity. Therefore, ample liquidity will keep money market rates at the minimum levels supporting also investments in short-term government securities as one of the most attractive investment opportunities.

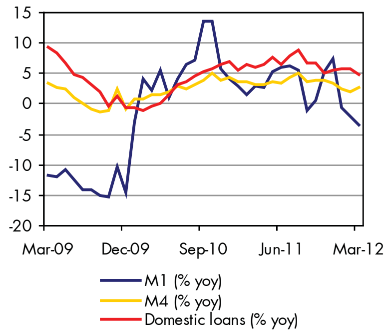
Finally, accession to the EMU is not expected before 2018. In terms of criteria for joining the monetary union, fiscal criteria will be hardest to meet, while monetary criteria are not expected to be a major problem. The domestic currency is predominantly stable against the euro and the criterion of price stability is not expected to be an issue. Meeting the criterion of low long-term interest rates (may not be more than 2pp higher than the average of the three best-performing member states) might be a challenge, considering the relatively large differentiation among countries.

Interest rates (%)



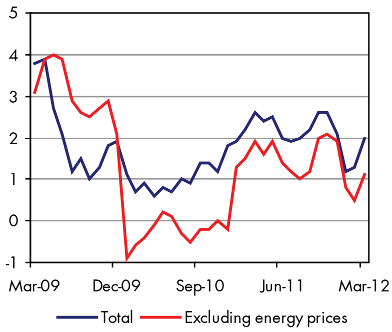
Sources: reuters.hr, CNB, MoF

Monetary aggregates



Source: CNB, Raiffeisen RESEARCH

Consumer prices (% yoy)



Source: CBS, Raiffeisen RESEARCH

Money market outlook

	curr.*	Sep-12	Dec-12	Mar-13
ZIBOR 3m (eop)	2.73	2.8	2.9	3.0
ZIBOR 12m (eop)	4.29	4.6	4.7	4.8

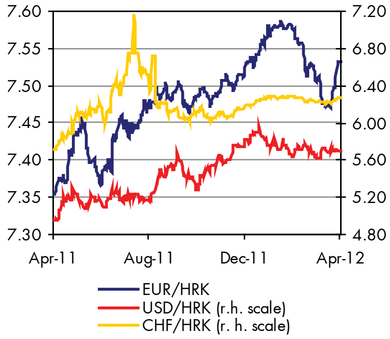
	2010	2011	2012e	2013f
ZIBOR 3m (avg)	2.4	3.1	3.5	3.0
ZIBOR 12m (avg)	4.1	4.4	5.1	4.4

** 11 May 2012, 10:00 p.m. CET*
Source: Thomson Reuters, Raiffeisen RESEARCH

C/A deficit at a historical low

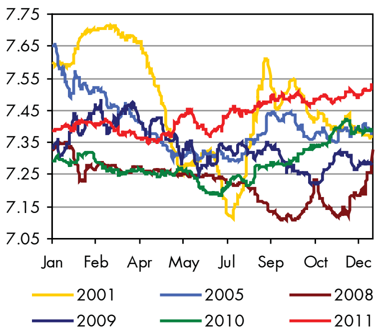
- **Weakening of the kuna against the euro spurred by weaker foreign exchange inflow**
- **External debt unlikely to grow at a stronger rate due to high indebtedness, weak domestic demand and economic activity**
- **Reduction of external imbalances as a result of cyclical developments**
- **Share of exports of goods in GDP is too small (20%) to be a growth generator**

Exchange rate development



Source: CNB

FX volatility, EUR/HRK



Sources: CNB, Raiffeisen RESEARCH

Exchange rate outlook

	current[1]	Sep-12	Dec-12	Mar-13
EUR/HRK[2]	7.50	7.57	7.60	7.55
USD/HRK[2]	5.80	5.61	5.63	5.59
EUR/USD[2]	1.29	1.35	1.35	1.35
	2010	**2011**	**2012e**	**2013f**
EUR/HRK[3]	7.29	7.43	7.56	7.55
USD/HRK[3]	5.49	5.42	5.69	5.81
EUR/USD[3]	1.33	1.37	1.33	1.30

1) 11 May 2012, 5:00 p.m. (CET)
2) eop
3) average
Source: CNB, Raiffeisen RESEARCH

The managed float regime for the EUR/HRK results in one of the most stable exchange rates in the region. Maintaining a stable FX rate is the central bank's priority. Given relatively low exports and high demand for foreign currency (FC) to settle imports of goods, EUR/HRK is largely dependent on FC inflow. During the expansion of the economy and the inflow of FC arising from external borrowing and foreign direct investment, the kuna appreciated against the euro. During times of weaker FC inflow, depreciation pressures on the domestic currency were more prominent. The past two years have been marked by reduced inflow of FC, causing downward pressures on the kuna and resulting in a rise in the exchange rate last year; the same trend continued at the beginning of this year. This year, we expect deterioration in foreign trade balance, weak FDI and foreign borrowing, making strengthening of EUR/HRK highly unlikely. After the seasonal strengthening of the kuna during the peak tourist season, towards the end of the year we expect depreciation pressures to re-intensify. These will surely depend on two main factors: the credit rating being maintained and success in attracting investments.
Reduced FC inflow is, amongst other things, a result of the slowdown in the growth of external debt. The period of relatively intense economic growth (2005-2008) was spurred primarily by personal spending, which in the absence of domestic savings was financed by foreign borrowing. The results are high household indebtedness, compared to other CEE countries, and growth of external debt almost to the level of GDP. This year, we expect only mild growth in external debt. Private enterprises' demand for borrowing will be adversely affected by the decline in activity, while the contribution of the banking sector will be modest, due to the expected mild increase in credit activity. So far, the government seems to be the only growth driver with its April Eurobond issuance.
The C/A deficit is characteristic of developing countries, considering their need for foreign capital as they catch up with developed economies. However, ever since gaining independence, Croatia has relied on consumption, neglecting production and exports. Consequently, C/A deficit growth did not result over time in the increase of goods exports, but rather in a further worsening of the imbalance. The reduction of the C/A deficit to historical lows (1% of GDP in 2011), as seen in the last two years, is not a result of structural changes in the domestic economy but a reflection of the reduction in domestic consumption and, accordingly, imports. Although exports of goods returned to pre-crisis levels, their share in GDP is too small (20%) to be a growth generator, as was the case in the majority of other CEE countries. The services account traditionally softens negative developments in the goods account, due to relatively high inflows from tourism. This year, we expect a slight deterioration in the external imbalance. The slowdown in the economies of the European Union will increase unfavourable trade developments; given the current structure, exports of goods have no potential for substantial growth. On the other hand, imports of goods remain far below the pre-crisis levels, with recovery unlikely this year. Considering Croatia's high dependence on energy, the increase in the price of energy and connected products presents a potential danger as regards the nominal growth of imports. The balance in the income account will continue deteriorating, due to higher costs of financing from abroad.

Low bank profitability equals no foreign capital inflow

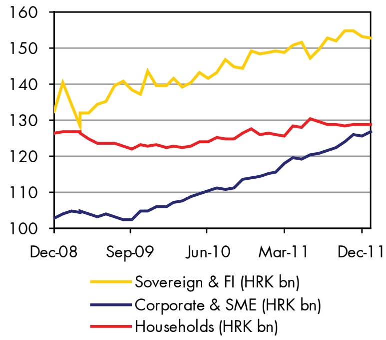
- **Adjustment of European banks to stricter rules will not jeopardise the business of subsidiary banks in the Croatian market**
- **Slowdown in the growth of problem placements**
- **No recovery in demand for financial products and services**
- **Over the past three years, the ratio of NPLs rose from 4.9% to 12.4%**

The Croatian banking sector is dominated by six large and three mid-sized banks. Together with subsidiary financial institutions, they control 90% of bank assets and 80% of housing savings and manage the entirety of pension fund assets. The financial market in Croatia is exceptionally bank-centred, with banks accounting for 75% of total assets. This means that financial market developments largely depend on the lending policies of the leading banks. All leading commercial banks are in the majority ownership of international financial groups established in the EU. The inflow of capital from European parent banks to subsidiary domestic banks may decrease in 2012, due to adjustment by parent banks to stricter European capitalisation and macroprudential regulation. However, limited access to intra-group capital flows will not jeopardise the operations of Croatian banks in the short term. High liquidity reserves are a consequence of the monetary policy measures associated with the stabilisation of the HRK exchange rate during appreciation pressures. Expected changes in cross-border capital flows could be neutralised by the regulator releasing liquidity reserves.

The average capital adequacy ratio at the end of 2011 was 19%. Solid capitalisation stabilised the banking system, amidst stagnation in demand for financial services, rising non-performing loans (NPLs) and low profitability. On the other hand, the redirecting of capital to alternative growth markets by parent banks has had an unfavourable impact on banking system stability. Long-term stability in an open banking system with predominant ownership of European financial groupings is unlikely without inflow from parent banks. Higher returns on invested capital from alternative investments in markets with comparable risk levels has been determining capital inflows. However, over the past three years the average RoE in the Croatian banking sector has not exceeded the yield on long-term government bonds, which cannot inspire owners to direct more capital into the Croatian market. The future inflow of capital to domestic banks, as well as to other financial institutions, will predominantly depend on an increase in profitability. Low bank profitability can primarily be explained by losses realised from the falling value of credit portfolios, resulting from growth in NPLs. Over the past three years, the ratio of NPLs rose from 4.9% to 12.4%. NPLs in the corporate segment reached a high of 20.1% at the end of 2011, while the NPL ratio in the household segment is substantially lower at 8.6%. It is expected that NPL growth will continue in 2012 and not slow down until 2013.

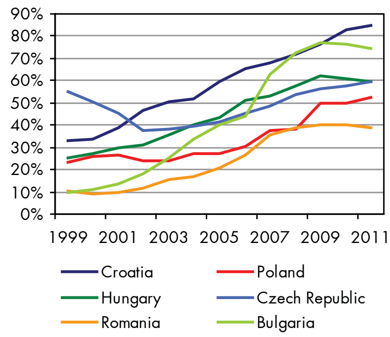
Demand for financial sector services has not shown any signs of recovery, especially in the household segment. The announced plan to spur a new investment cycle in government enterprises might increase demand for corporate loans in the short term, but the questionable efficiency of these investments undermines the belief in their sustainability. From a medium-term perspective, the growth outlook for the Croatian banking sector is subdued. Croatia experienced one of the strongest lending booms in the CEE region, which drove up the loan-to-GDP ratio substantially from a rather high level over the last decade. As the loan-to-GDP ratio may have overshot a fundamentally backed level, total loan growth is unlikely to outpace GDP growth in the next 2-3 years.

Banking assets by segments



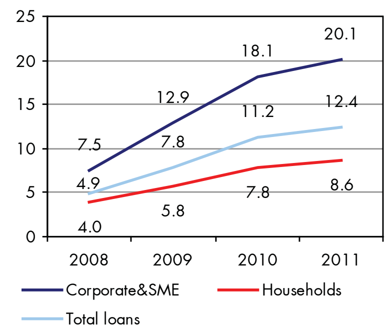
Source: CNB

Total loans (% of GDP)



Source: National Banks, Raiffeisen RESEARCH

Non-performing loans ratio (%)

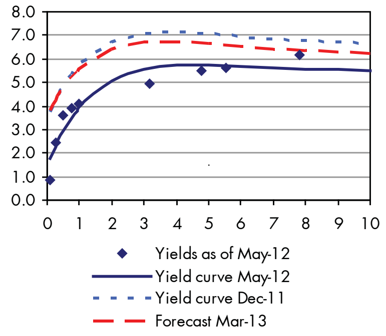


Source: CNB

Rating maintained, risks remain

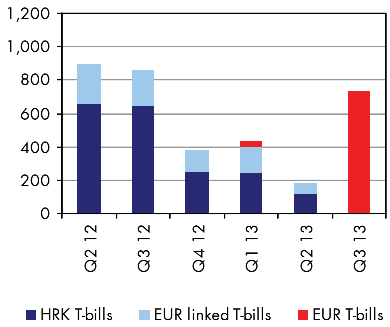
- Rating maintained, the fall in risk premium supported by good liquidity
- With the USD Eurobond issue refinancing needs in the first part of the year might have been met
- Narrowing of Eurobond spreads will largely depend on better fundamentals
- Amidst a lack of domestic issues, focus shifted to the short-term financial instrument's market

HRK yield curve (%)



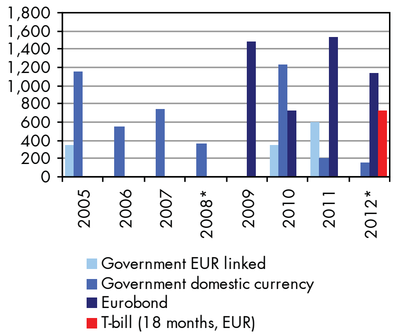
Source: Bloomberg, Raiffeisen RESEARCH

Treasury bills maturities (EUR mn)*



* *as of 7- May*
Sources: MoF, Raiffeisen RESEARCH

New government bond issues*



* *2-year T-bills MoF (EUR mn)*
Sources: MoF, Raiffeisen RESEARCH

The foundation of the Croatian debt securities market is composed of Ministry of Finance T-bills and government bonds issued purely in kuna and with a currency clause (euro-linked). The corporate and municipal debt securities market is very small and almost illiquid.

All local government bonds have so far been issued through guaranteed subscription of the entire issue by a syndicate of banks that can re-sell the issue to end investors via a call for the subscription of a government issue. T-bills are issued at weekly auctions where investors submit direct purchase offers to the Ministry of Finance. Auctions are normally (but not necessarily) held at regular weekly intervals. However, as with government bonds, there is no issue calendar. Bond issues are large and rare, creating one-off large supply that at one point can overwhelm investors and then lead to a shortage of government papers to invest in until the next issue. Uncertainties in regard to the issue calendar (e.g. issue size, currency, bond maturity) also pose problems for the secondary market, limiting investors in the implementation of their investment strategies and thus paralysing the secondary market.

The global financial crisis contributed to a large fall in turnover and liquidity in the secondary market from 2008 until now. Although turnover figures have been gradually increasing since 2010, they continue to be far below those attained before the onset of the crisis. In addition to banks as market-makers, the main investors in the domestic bond markets are compulsory and voluntary pension funds, investment funds and insurance companies. Due to continued inflows of monetary assets into the portfolios of certain institutional investors (pension funds), along with regulations requiring them to invest a minimum of 50% of their assets in securities of the Republic of Croatia, the shallow local market fails to meet demand. Life insurance companies predominantly invest in long-term securities (often indexed to foreign currencies) held in long-term portfolios (hold to maturity). Although the share of non-residents in the local market continues to be small, given the ample liquidity of foreign markets and the fact that Croatia managed to maintain its credit rating, interest in Croatian bonds by non-residents was restored as a result of tempting returns compared with yields in the region, especially in the context of the pending EU accession.

Despite renewed recessionary developments paired with weak medium-term chances of economic growth, yields on Croatian long-term debt securities have been slowly declining since the beginning of the year. In addition to good liquidity in the domestic market, these market developments are partly a consequence of the improvement in liquidity on foreign markets. Croatian bonds found additional support in the confirmation of Croatia's credit rating. It is noteworthy that interest arose for pure kuna issues, finally resulting in lower yields on shorter-term kuna bond issues with relatively similar maturities to T-bill issues indexed to the euro.

As long as positive market sentiment continues to spill over from the core market (due to good liquidity), we expect investors to remain interested in Croatian issues. However, the second quarter has already hinted at renewed negative expectations as regards the global economic recovery and the debt crisis in the euro area. In addition, the sustainability of demand for higher risk assets, as Croatian issues are perceived, will surely depend also on the ability of the government to maintain the country's rating, which will come into the spotlight again with the first budget revision announced for July. Bonds in the secondary domestic market will be supported by good liquidity (especially that of institutional investors) and an unwillingness to sell existing portfolios, considering that the next government issue on the domestic market is not foreseen, at least until the third quarter. The first details of a domestic issue will not be known until after the summer budget revision. We estimate that the issue could be worth some EUR 1 bn. It seems that with the last (and the only one of this year) Eurobond issue in the US market (five-year maturity, worth USD 1.5 bn, a 6.25 coupon and 6.325 yield at issue), refinancing needs in the first (and the toughest) part of the year were met. The funds raised will be used to finance the maturing bond indexed to foreign currency, due in the second half of May, and a share of loan repayments.

The prices of Croatia's Eurobond issues over the remainder of the year will follow regional developments. Further narrowing of spreads will largely depend on better fundamentals. The insecurity of the outlook of Croatia's medium-term GDP growth, the success of fiscal consolidation and implementation of reforms will surely continue to hold the prices of Croatian issues at relatively high levels. We do not inevitably expect a rating downgrade by the S&P, Moody's or Fitch agencies. However, if that is the case, one could suggest a significant spread widening, as we have seen in Romania when the country rating slipped to subinvestment grade in 2008. This incident would mean a good, cheap investment opportunity. All the more so as EU accession and the year 2013, assuming a successful fiscal adjustment, could have a positive effect on yields of Croatian debt securities.

Amidst a lack of domestic issues (the last was in July 2011), focus shifted to the short-term financial instrument's market (that is, T-bill auctions). In addition to the usual 91-day, 182-day and 364-day kuna T-bills, and the 94-day and 364-day euro-linked T-bills, the Ministry of Finance for the first time issued pure euro T-bills (with one and 1.5-year maturities) and two-year kuna bills, which attracted the special interest of pension funds. The yields have moved on a mild downward trend, with a noticeable shortening in maturity and changes in the currency structure of short-term debt. Debt arising from kuna T-bills has been reducing and debt from foreign currency-indexed T-bills has been increasing. At the end of April, the central government debt arising from T-bills exceeded maturities by some HRK 7 bn, so the current debt is at 7.9% of the estimated GDP for 2012.

The remainder of the year is unlikely to feature any surprises in the money market. We expect the MoF to continue rollover of existing T-bill issues, maintaining stable yields supported by investor interest, with the absence of alternative investments. Good liquidity, no repo auctions and relatively low money market interest rates are likely to be seen until the last quarter of the year. We also expect money market interest rates on longer term maturities to decline, which is unlikely to be disrupted by liquidity outflow that is common during the peak tourist season. As the end of the year approaches, the expected depreciation pressures on the kuna against the euro might make the market slightly nervous.

HRK yields outlook (%, ask)

	current[1]	Sep-12	Dec-12	Mar-13
1 year T-bill yield[2]	3.74	3.60	3.60	3.50
3 year T-bond yield[2]	5.72	5.88	5.88	5.78
5 year T-bond yield[2]	6.04	6.68	6.68	6.68
10 year T-bond yield[2]	6.62	6.78	6.78	6.78

	2010	2011	2012e	2013f
1 year T-bill yield[3]	4.02	4.02	4.08	3.45
3 year T-bond yield[3]	5.31	6.75	5.86	5.69
5 year T-bond yield[3]	5.68	6.46	6.56	6.38
10 year T-bond yield[3]	6.40	6.64	6.76	6.56

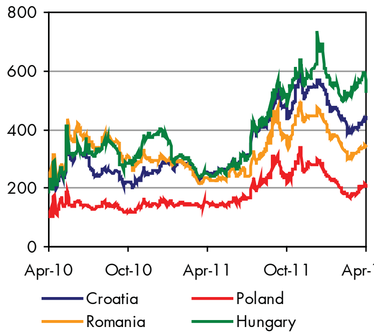
1) 11 May 2012, 05:00 p.m. (CET); 2) % eop; 3) % avg
Source: Thomson Reuters, Raiffeisen RESEARCH

Rating comparison*

	S&P	Moody`s	Fitch
Croatia	BBB-	Baa3	BBB-
Bulgaria	BBB	Baa2	BBB-
Slovakia	A	A2	A+
Poland	A-	A2	A-
Hungary	BB+	Ba1	BB+
Slovenia	A+	A2	A
Czech Rep.	AA-	A1	A+
Romania	BB+	Baa3	BBB-

** long-term, LCY, on 30 April*
Source: rating agencies websites, Raiffeisen RESEARCH

CDS spread (USD, bp)

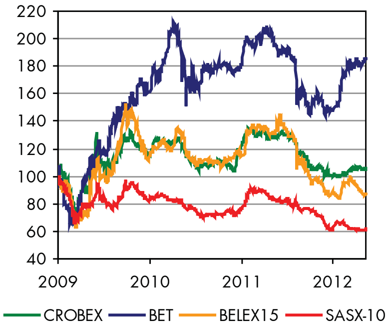


Source: Bloomberg

Croatian equity market supported by global recovery

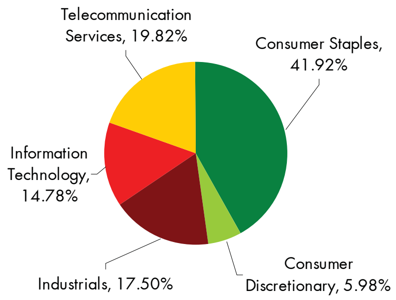
- **Croatian equities benefit from declining global risk aversion**
- **Long-term growth perspectives, thanks to EU membership and the related convergence process**
- **Petrokemija, Croatia Osiguranje and Hrvatska Poštanska Banka as likely candidates for privatisation**
- **Some construction companies to rebound on new investment cycle**

SEE equity market indices



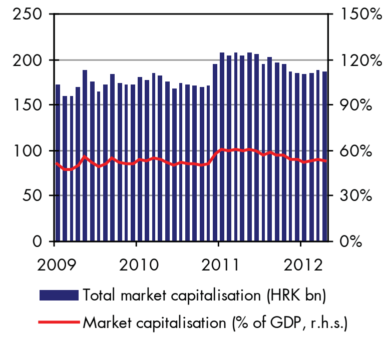
Source: Bloomberg, Raiffeisen RESEARCH

CROBEX10 sector weightings



Source: Bloomberg, Raiffeisen RESEARCH

Market capitalisation ZSE



Sources: ZSE, Raiffeisen RESEARCH

The Zagreb Stock Exchange (ZSE) used to be one of the high-flyers among the stock markets in the Balkans before the overvalued market crashed in 2008. In the two years thereafter, the recovery on the Croatian market was sluggish compared to the other markets, with gains of +16% and +5% respectively. The recovery has been fairly limited, because when sentiment improves investment in risky assets tends to occur in established markets first and international investors in particular tend to initially avoid small, less liquid stock markets. During the first four months of 2012, average daily trading volumes were HRK 19.2 mn, a decline of 18% on the average figure for the previous year. By way of comparison, in 2007, at the peak time for the SEE markets, average daily trading volumes were running at HRK 269.2 mn, some 14 times higher than the level seen for 2012 so far. At the end of April 2012, market capitalisation was HRK 186.2 bn, divided up into HRK 130 bn (70%) equities and HRK 56.2 bn (30%) bonds. This means that the Croatian market is one of the smaller markets by international standards. Nevertheless, we expect that the importance of the ZSE will increase in light of Croatia's impending accession to the European Union and consequently there should be a rise in trading volumes. The upcoming privatisations will also have a benign impact on liquidity, as there is still plenty of potential in this field. During the previous quarter some companies posted higher turnover thanks to the announced possibility of the state selling its stakes in some listed companies. This can be mostly applied to shares of Petrokemija and Luka Rijeka, which might be a good indication of future movements on the ZSE, if privatisation intentions become more certain. Furthermore we expect the state to sell shares in Croatia Osiguranje and Hrvatska Poštanska Banka (HPB), currently priced on the market at HRK 2.8 bn. The state's portfolio includes shares in a number of listed companies. In CROBEX members alone, the state holds shares currently valued at more than HRK 2 bn. This includes 75% of the shares of Luka Rijeka, 50.6% of the shares of Petrokemija, 46% of the shares of Đuro Đaković Holding, 25% of the shares of Končar, 20% of the shares of both Luka Ploče and Podravka and minority stakes in Atlantska Plovidba, Tisak, Belje and Vupik. Although the government is not pressured by a liquidity squeeze at the moment, some of the assets could be put up for sale during this year and next year to unload the responsibility burden and focus only on a strategic asset portfolio.

The future development of the ZSE will mostly depend on the course of the established markets in the next twelve months again. Essentially, in this regard there are two main factors driving investors' risk appetite: first, the course of the European debt crisis and the prevention of contagion effects to larger countries, and second, economic performance on both sides of the Atlantic Ocean. All in all, we expect basically positive performance on the Croatian stock market. In light of EU membership and the related convergence process, we see the long-term growth perspectives for this market as still being intact. Upcoming privatisations should attract the interest of foreign investors and boost liquidity. As for the valuations of the names in the CROBEX10, with a P/E ratio of 9.8 the level looks reasonable, and thus mild price gains are expected by year-end.

Likely candidates for privatisation

Petrokemija is a chemical company involved in the production of mineral fertilizers and liquid fertilizers for plants. The company also produces carbon black as well as clay-based products. The largest shareholder is the state with a 50.6% stake, followed by pension funds. Petrokemija posted yoy significantly improved figures for 2011, which can be attributed to output prices adjustment in line with increasing input prices (especially gas price) as well as to 37.6% yoy higher exports.

Croatia Osiguranje is a leading insurance company on the Croatian market with a market share of 38%. The company's business includes vehicles, property, casualty and life insurance. The state holds a 78.9% stake. Total gross written premiums amounted to HRK 3.24 bn in 2011 (-1.7% yoy). The company has undertaken some cost-cutting measures and increased net profit by 35% compared to 2010. Savings were realised on changes in actuarial reserve and other expenses.

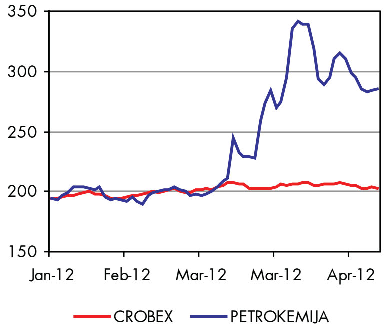
Hrvatska Poštanska Banka is the seventh largest bank in Croatia in terms of assets value (HRK 16.45 billion at the end of 2011) with a market share of 4%. The Republic of Croatia, directly or through state-owned companies, holds an ownership stake of 99%. HPB operates with a network of 37 units all over the country. Gross loans portfolio stood at HRK 10.6 billion (+9% yoy). Thereof, 56% refers to corporate loans, which rose 12.6%, whereas retail loans advanced by 11.4%. L/D ratio decreased from ca. 87% in 2010 to 85% in 2011. The capital adequacy ratio of HPB was reduced to 14.2% in 2011, which is one of the lower ratios on Croatian market, whereas the C/I ratio was improved to 70%.

Construction companies

After three years of decreasing construction output, the new Government announced a new investment cycle worth HRK 15 bn. These projects are to be undertaken in the form of public-private partnerships and include a reconstruction of a number of old buildings according to energy efficiency requirements and the construction of new buildings for public use. The investment plan could be beneficial for results and employment of capacities of most construction companies as well as producers of construction materials and accompanying services.

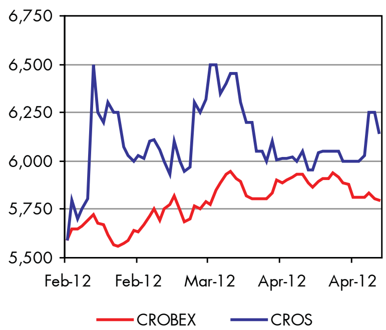
The absolute winner measured by the amount of new deals is **Viadukt**. The company inked a total of more than HRK 1.1 bn (FY 2011 revenues were HRK 811 mn), mostly in two large deals, the enlargement of the Zagreb Airport and the construction of a dry bulk terminal in Luka Ploče. The airport construction works are contracted with Bouygues Bâtiment Int and amount to HRK 516 mn, with the expected start in 2013 and completion in three years. The project will be financed by the ZAIC consortium (Aeroports de Paris Management and Bouygues) which won a 30-year concession contract for operating the Zagreb Airport. The construction works of the port terminal are worth HRK 406 mn and are estimated to be completed in 26 months. This project is financed by the World Bank. **Tehnika** was also successful in winning new contracts with public and private investors worth HRK 360 mn in total (FY 2011 revenues were HRK 703 mn). The contracts are related to residential, business and shopping mall construction and should be completed by mid-2013. **Dalekovod** also signed a number of new contracts in this year of over HRK 300 mn, mostly with Hrvatske Autoceste and HEP. In addition, the company has entered into renewable energy projects and is currently managing three sites with a capacity of 45 MW. The total capacity of new projects in the late and early stages of development in wind power plants of over 160 MW are estimated to be worth around EUR 280 mn when completed and would position Dalekovod as a leader in this field.

Petrokemija



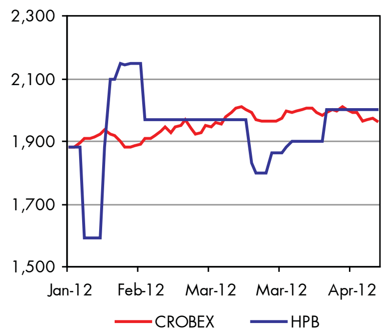
Source: ZSE, Raiffeisen RESEARCH

Croatia Osiguranje



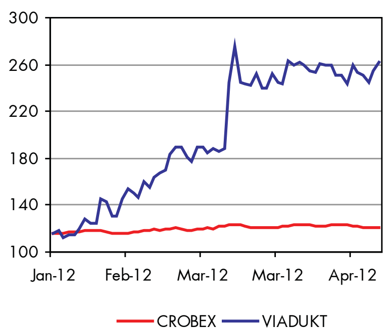
Source: ZSE, Raiffeisen RESEARCH

Hrvatska Poštanska Banka



Source: ZSE, Raiffeisen RESEARCH

Viadukt



Source: ZSE, Raiffeisen RESEARCH

Real GDP (% yoy)

Countries	2010	2011	2012e	2013f
Poland	3.9	4.3	2.8	3.7
Hungary	1.3	1.7	-0.5	1.5
Czech Rep.	2.7	1.7	-0.2	1.4
Slovakia	4.0	3.3	0.8	2.5
Slovenia	1.4	-0.2	-1.0	1.5
CE	**3.2**	**3.1**	**1.3**	**2.7**
Croatia	-1.2	0.0	-1.0	1.0
Bulgaria	0.4	1.7	1.0	2.5
Romania	-1.6	2.5	0.5	2.5
Serbia	1.0	2.0	0.0	1.0
Bosnia a. H.	0.7	1.9	0.0	2.0
Albania	3.9	3.1	2.5	3.5
SEE	**-0.7**	**1.9**	**0.3**	**2.1**
Russia	4.3	4.3	3.7	4.0
Ukraine	4.2	5.2	3.5	4.0
Belarus	7.6	5.3	3.0	3.0
CIS	**4.4**	**4.4**	**3.7**	**4.0**
CEE	**3.5**	**3.7**	**2.6**	**3.4**
Turkey	9.0	8.5	3.0	4.0
Austria	**2.3**	**3.1**	**0.3**	**1.3**
Eurozone	**1.8**	**1.5**	**-0.5**	**1.1**
USA	3.0	1.7	2.0	1.0

Source: wiiw, Raiffeisen RESEARCH

Private consumption (% yoy)

Countries	2010	2011	2012e	2013f
Poland	3.2	3.4	2.3	3.0
Hungary	-2.3	0.0	0.0	0.5
Czech Rep.	0.6	-0.5	-1.0	0.8
Slovakia	-0.8	-0.4	0.0	1.2
Slovenia	-0.6	-0.2	0.0	1.0
CE	**1.3**	**1.6**	**1.0**	**1.9**
Croatia	-0.9	0.2	-0.8	1.0
Bulgaria	0.6	-0.2	0.2	3.5
Romania	-0.4	1.4	0.6	2.0
Serbia	n.a.	n.a.	n.a.	n.a.
Bosnia a. H.	-1.3	2.5	-0.5	2.5
Albania	n.a.	n.a.	n.a.	n.a.
SEE	**-0.3**	**0.8**	**0.2**	**1.8**
Russia	5.1	6.4	5.5	6.0
Ukraine	6.7	15.0	7.1	5.6
Belarus	10.2	n.a.	n.a.	n.a.
CIS	**5.4**	**6.9**	**5.5**	**5.8**
CEE	**3.6**	**4.7**	**3.6**	**4.2**
Turkey	6.7	7.7	3.7	4.1
Austria	**2.2**	**0.6**	**0.9**	**1.3**
Eurozone	**0.8**	**0.2**	**-0.3**	**0.8**
USA	2.0	2.2	1.8	1.2

Source: wiiw, Raiffeisen RESEARCH

Consumer prices (avg, % yoy)

Countries	2010	2011	2012e	2013f
Poland	2.6	4.3	3.9	2.5
Hungary	4.9	3.9	5.6	3.5
Czech Rep.	1.5	1.9	3.0	2.2
Slovakia	1.0	3.9	3.0	2.5
Slovenia	1.8	1.8	2.2	2.0
CE	**2.5**	**3.6**	**3.8**	**2.5**
Croatia	1.1	2.3	3.0	3.0
Bulgaria	2.4	4.2	2.7	3.1
Romania	6.1	5.8	3.0	3.6
Serbia	6.5	11.0	6.5	6.0
Bosnia a. H.	2.1	3.7	2.2	2.0
Albania	4.0	3.5	3.0	3.5
SEE	**4.5**	**5.4**	**3.3**	**3.6**
Russia	6.9	8.5	6.0	6.9
Ukraine	9.4	8.0	4.2	8.5
Belarus	7.7	53.2	60.0	23.0
CIS	**7.1**	**9.7**	**7.4**	**7.5**
CEE	**5.5**	**7.4**	**5.9**	**5.6**
Turkey	8.6	6.5	9.5	6.5
Austria	**1.7**	**3.6**	**2.3**	**2.0**
Eurozone	**1.6**	**2.7**	**2.2**	**1.8**
USA	1.6	3.2	2.1	1.5

Source: wiiw, Raiffeisen RESEARCH

Current account balance (% of GDP)

Countries	2010	2011	2012e	2013f
Poland	-4.1	-3.9	-3.8	-3.1
Hungary	1.1	1.6	1.8	1.0
Czech Rep.	-3.9	-2.9	-2.2	-2.3
Slovakia	-2.5	0.2	1.4	2.0
Slovenia	-0.8	-0.5	-0.6	-1.1
CE	**-3.0**	**-2.4**	**-2.1**	**-1.8**
Croatia	-1.0	-1.0	-1.4	-1.5
Bulgaria	-1.3	1.9	1.6	0.9
Romania	-4.4	-4.2	-4.0	-4.2
Serbia	-7.4	-8.9	-7.4	-7.3
Bosnia a. H.	-5.3	-8.1	-6.6	-8.1
Albania	-10.3	-11.3	-10.1	-8.9
SEE	**-4.0**	**-3.8**	**-3.5**	**-3.8**
Russia	6.1	5.5	2.8	0.9
Ukraine	-2.2	-5.5	-4.1	-4.1
Belarus	-15.1	-9.7	-12.9	-13.8
CIS	**4.7**	**4.2**	**1.9**	**0.2**
CEE	**1.3**	**1.4**	**0.2**	**-0.8**
Turkey	-6.6	-10.0	-8.3	-7.6
Austria	**3.0**	**1.9**	**2.6**	**2.6**
Eurozone	**-0.5**	**-0.3**	**-0.2**	**-0.4**
USA	-3.2	-3.1	-2.9	-2.8

Source: wiiw, Raiffeisen RESEARCH

General budget balance (% of GDP)

Countries	2010	2011	2012e	2013f
Poland	-7.9	-5.4	-4.9	-3.4
Hungary	-4.2	4.3	-3.0	-2.6
Czech Rep.	-4.8	-4.4	-3.7	-3.4
Slovakia	-7.9	-5.0	-4.6	-2.8
Slovenia	-5.8	-6.5	-4.5	-4.0
CE	**-6.6**	**-3.9**	**-4.3**	**-3.3**
Croatia	-4.9	-5.5	-4.3	-3.5
Bulgaria	-4.0	-2.1	-2.2	-1.8
Romania	-6.8	-4.6	-3.0	-3.0
Serbia	-4.8	-4.5	-5.2	-4.6
Bosnia a. H.	-2.2	-3.0	-3.0	-2.0
Albania	-5.7	-3.5	-4.0	-4.0
SEE	**-5.6**	**-4.3**	**-3.4**	**-3.1**
Russia	-4.1	0.8	-1.3	-1.0
Ukraine	-7.5	-4.3	-4.0	-2.5
Belarus	-2.6	2.4	-0.5	-1.0
CIS	**-4.3**	**0.4**	**-1.5**	**-1.1**
CEE	**-5.1**	**-1.3**	**-2.5**	**-2.0**
Turkey	-3.7	-1.4	-1.5	-2.0
Austria	**-4.5**	**-2.6**	**-3.1**	**-2.2**
Eurozone	**-6.2**	**-4.1**	**-3.4**	**-3.0**
USA	-8.9	-8.7	-7.6	-3.8

Source: wiiw, Raiffeisen RESEARCH

Public debt (% of GDP)

Countries	2010	2011	2012e	2013f
Poland	53.4	55.9	54.2	51.9
Hungary	81.4	80.6	79.8	79.0
Czech Rep.	37.6	41.1	43.6	45.2
Slovakia	41.0	44.4	48.2	48.8
Slovenia	38.8	47.5	50.0	51.0
CE	**52.0**	**54.7**	**54.7**	**53.9**
Croatia	41.2	45.1	52.2	53.7
Bulgaria	16.7	17.0	19.9	19.1
Romania	30.5	33.4	34.3	35.0
Serbia	43.2	45.8	48.0	45.0
Bosnia a. H.	38.4	37.4	39.7	40.1
Albania	59.5	59.6	59.6	59.4
SEE	**33.3**	**35.6**	**38.0**	**38.2**
Russia	9.2	9.8	14.0	16.0
Ukraine	40.0	36.0	37.5	37.0
Belarus	23.5	52.5	50.5	57.0
CIS	**12.1**	**13.1**	**16.9**	**18.8**
CEE	**26.1**	**27.7**	**30.3**	**31.2**
Turkey	42.2	39.1	36.2	35.0
Austria	**71.9**	**72.2**	**74.8**	**75.2**
Eurozone	**85.4**	**88.0**	**90.4**	**90.9**
USA	93.1	98.7	103.7	106.2

Source: wiiw, Raiffeisen RESEARCH

Gross foreign debt (% of GDP)

Countries	2010	2011	2012e	2013f
Poland	66.4	70.1	61.5	60.3
Hungary	139.4	132.9	133.9	125.1
Czech Rep.	47.9	48.9	47.4	47.9
Slovakia	74.5	79.0	81.3	86.0
Slovenia	114.9	116.3	116.7	115.8
CE	**75.8**	**77.4**	**72.6**	**71.2**
Croatia	101.2	99.6	103.6	100.8
Bulgaria	102.7	92.7	88.0	79.7
Romania	74.5	72.2	72.5	71.0
Serbia	84.5	74.5	75.7	70.3
Bosnia a. H.	58.3	58.9	61.0	60.6
Albania	23.5	23.6	24.3	23.2
SEE	**81.7**	**77.5**	**77.8**	**74.6**
Russia	32.9	29.4	28.0	27.9
Ukraine	85.9	76.6	71.4	72.8
Belarus	51.3	61.5	75.7	89.3
CIS	**37.2**	**34.3**	**32.6**	**32.9**
CEE	**54.5**	**51.7**	**48.3**	**47.7**
Turkey	39.5	42.7	39.7	37.8
Austria	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Eurozone	**n.a.**	**n.a.**	**n.a.**	**n.a.**
USA	n.a.	n.a.	n.a.	n.a.

Source: wiiw, Raiffeisen RESEARCH

Exchange rate EUR/LCY (avg)

Countries	2010	2011	2012e	2013f
Poland	3.99	4.11	4.14	3.94
Hungary	275.5	279.3	290.5	285.0
Czech Rep.	25.3	24.6	24.5	23.5
Slovakia	euro	euro	euro	euro
Slovenia	euro	euro	euro	euro
Croatia	7.29	7.43	7.56	7.55
Bulgaria	1.96	1.96	1.96	1.96
Romania	4.21	4.24	4.42	4.40
Serbia	103.0	102.0	109.0	106.9
Bosnia a. H.	1.96	1.96	1.96	1.96
Albania	137.8	140.3	140.2	138.5
Russia	40.3	40.9	39.7	41.2
Ukraine	10.54	10.92	10.89	11.57
Belarus	3950	6300	11700	15200
Turkey	2.00	2.30	2.36	2.28
Austria	**euro**	**euro**	**euro**	**euro**
USA	1.33	1.37	1.33	1.30

Source: wiiw, Raiffeisen RESEARCH

Ratings*

Countries	S&P	Moody's	Fitch
Poland	A-	A2	A-
Hungary	BB+	Ba1	BB+
Czech Rep.	AA-	A1	A+
Slovakia	A	A2	A+
Slovenia	A+	A2	A
Croatia	BBB-	Baa3	BBB-
Bulgaria	BBB	Baa2	BBB-
Romania	BB+	Baa3	BBB-
Serbia	BB	n.r.	BB-
Bosnia a. H.	B	B3	n.r.
Albania	B+	B1	n.r.
Russia	BBB	Baa1	BBB
Ukraine	B+	B2	B
Belarus	B-	B3	n.r.
Turkey	BB	Ba2	BB+
Austria	**AA+**	**Aaa**	**AAA**
USA	AA+	Aaa	AAA

** for FCY, long-term debt; n.r. ... not rated*
Source: wiiw, Raiffeisen RESEARCH

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