CEE Weekly

Issue 02/2017 13 January 2017

Raiffeisen RESEARCH

Market snapshot

	curr.*	Mar-17	Jun-17	Sep-17
Poland				
EUR/PLN	4.374	4.40	4.45	4.40
Key rate	1.50	1.50	1.50	1.50
10y bond	3.6	3.5	3.6	3.7
Hungary				
EUR/HUF	307.1	310	315	310
Key rate	0.90	0.90	0.90	0.90
10y bond	3.5	3.2	3.2	3.3
Czech Republic				
EUR/CZK	27.02	27.0	27.0	27.0
Key rate	0.05	0.05	0.05	0.05
10y bond	0.4	0.6	0.6	0.5
Romania				
EUR/RON	4.492	4.45	4.50	4.45
Key rate	1.75	1.75	1.75	1.75
10y bond	3.6	3.3	3.4	3.5
Croatia				
EUR/HRK	7.537	7.55	7.47	7.50
Key rate	2.50	2.50	2.50	2.50
10y bond	3.0	3.1	3.1	3.2
Russia				
USD/RUB	59.30	63.0	62.0	60.0
Key rate	10.00	9.50	9.00	8.50
10y bond	8.0	8.9	8.8	8.7
Turkey				
USD/TRY**	3.762	3.40	3.50	3.40
Key rate	8.00	8.50	8.50	8.50
10y bond	11.2	11.6	11.8	11.6
EUR/USD	1.065	1.04	1.02	1.02

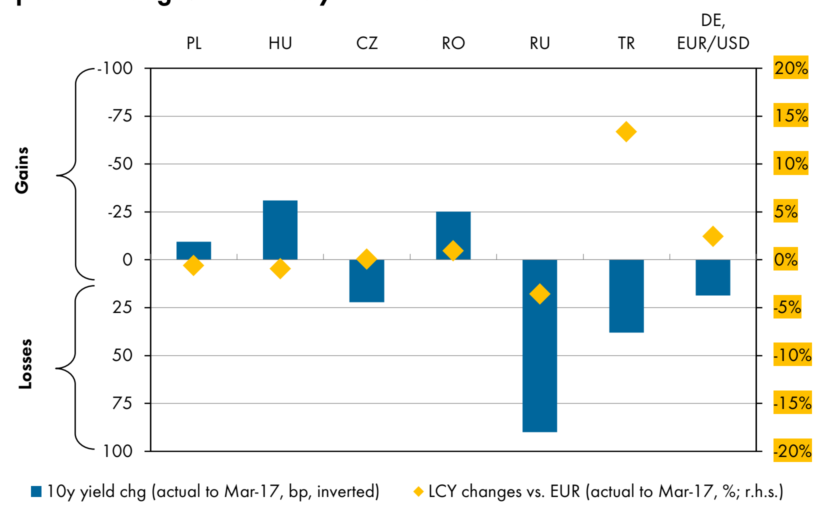
** prices as of 12 January 2017, 11:59 p.m. CET*
*** TRY forecasts under revision*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Highlights

Due to base effects (incl. energy prices) and domestic developments inflation figures are in market spotlight in Western Europe and CEE markets. In Hungary or Czech Republic strong increases in inflation are already visible, while in other cases we will likely see more pronounced effects in January. The reflation topic definitely has a market impact, from a short-term perspective most prominently in Czech Republic where market bets on a front-loaded FX cap release soared. For the time being we remain more cautious as we see the Czech National Bank remaining focused on domestic inflationary pressure, which is expected to peak in Q1 and may fade later in 2017. Therefore, we would assume that the CNB may wait for more clearness on the domestic inflation front (in H2 2017) before lifting the FX cap (the latter may have a disinflationary effect). Meanwhile, investors started to price in certain political or fiscal loosening risk premia in several CE/SEE markets recently (e.g. Romania, Serbia or Poland). We expect this tendency to continue. This holds especially true in case negative rating pressure will materialise in Poland (with rating reviews looming for Poland today after market closing bell). With regards to the political newsflow the appointment of a caretaker government in Bulgaria (with the newly elected President taking his position next week) could also attract market interests, while in recent days the market focus remained on a potential rapprochement between Russia and the US. We have a more detailed look at this topic, incl. potential implications for Ukraine, in our Focus on section on page 2-3. On a positive note we have not seen material spillovers from the unfolding financial crisis in Turkey on CEE markets, which speaks for the resilience of the region. Nevertheless, the developments in Turkey do highlight that increasing political influence on the central bank and erratic policy moves can strongly backfire in case supportive global market conditions are turning (in case of Turkey oil prices and capital flows).

Financial analyst: Gunter Deuber (+43 1 71707 5707), RBI Vienna

Expected changes from today until March 2017



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Content

Data highlights upcoming week

Date	Indicator	Period	Forecast	High	Mean	Low	Previous
18-Jan	SK: CPI, % yoy	Dec	n.a.	n.a.	n.a.	n.a.	-0.2
19-Jan	PL: Industrial output, % yoy	Dec	0.9	3.9	1.6	-1.1	3.3
19-Jan	PL: Retail sales, % yoy	Dec	7.5	7.9	6.2	2.6	6.6

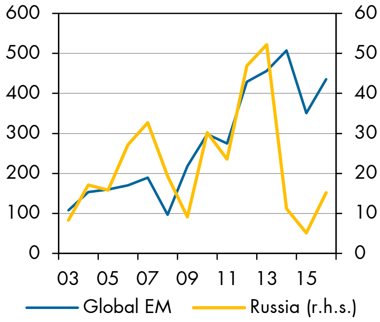
Source: Bloomberg, RBI/Raiffeisen RESEARCH

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

Focus on Russia: De facto loosening might follow official easing of sanctions

- Sanction-easing expectations increase substantially
- EU may try to maintain tougher stance for longer than USA
- Nevertheless, gradual easing of Western sanctions realistic scenario for 2017
- Ukraine could become "victim" of USA-Russia rapprochement

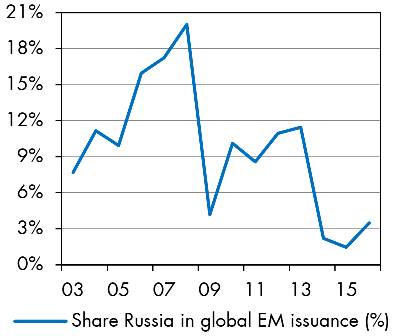
International issuance*



** USD bn, all sectors*

Source: Bloomberg, Raiffeisen RESEARCH-

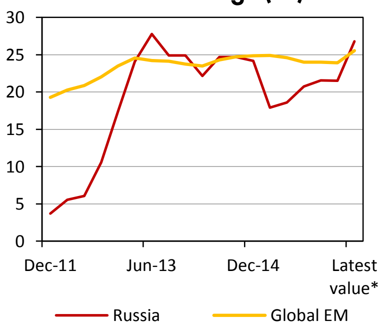
RU international issuance*



** All sectors*

Source: Bloomberg, Raiffeisen RESEARCH-

Non-resident holdings (%)*



** % of LCY government debt*

Source: CBR, Institute of International Finance, RBI/Raiffeisen RESEARCH

For economic reasons and sanction constraints, Russian companies and banks have placed lower volumes of international debt capital market financing than comparison countries in recent years, though international issuances recovered slightly in 2016, and the external deleveraging in the banking segment seems at least to be winding down. This means we are seeing a de facto easing of conditions, despite the fact that Western sanctions are still in place. We generally expect the trends outlined above to continue in 2017, and we could even see the first official loosening of sanctions. We at least see more potential for positive surprises than for setbacks. We are also encouraged by the fact that Russia has recently taken moderate foreign policy stances in some cases. For example, Russia did not react to the latest US sanctions and the ejection of diplomats due to purported cyber-attacks and spying. Many financial market players expect that the mostly symbolic rapprochement between the USA and Russia as of late will soon be followed by action. A recent Bloomberg survey of analysts (conducted at the end of December, after the election of Donald Trump as next president) shows that 55% of the respondents expect the USA will loosen its sanctions in the next 12 months. This is the highest level reported for the USA in this survey in the past 24 months. Forty percent of respondents also expect that the EU will ease its sanctions. In September, only 10% of the analysts expected US sanctions would be eased, and only 33% expected the EU to loosen its grip. Here it is worth noting that Italy has already indicated it will use its current G7 presidency to improve relations between Russia and the West. It seems more like that Italy will try to push the G7 countries back towards the G8 format (including Russia), while the idea in the G7 forum was originally to evaluate the sanction policy against Russia at the G7 spring meeting. Austria, which is chairing the OSCE this year, also seems to want more cooperation with Russia in relation to the Ukraine conflict, and is supporting a pragmatic and gradual easing of sanctions on a reciprocal basis (tied to gradual progress in the Ukraine conflict and Minsk-II implementation).

That said, we do not expect a rapid and complete lifting of all Western sanctions (especially EU sanctions), because we still see a number of obstacles. First, we think the EU will try to maintain its sanctions at least for 2017 (primarily with the support of Germany's hardline position). Second, it remains to be seen how far the new US president will be willing to go in butting heads with the Republican establishment in foreign policy matters (Russian sanctions) and what kind of deals between the USA and Russia (for example related to fighting terrorism and hacking activities) he will be able to or will have to present to facilitate a more pro-Russian stance in the Republican establishment. We feel the latter will be important to achieving a comprehensive easing of sanctions that investors can have faith in. In terms of the currency and bond market, it is important to note that the beginning of the end of Western sanctions will not necessarily trigger a massive or lasting rally on the Russian financial markets. First, (international) issuances by the government and especially by companies could increase after such a step. Second, the focus of economic policy could become less orthodox and could shift from preserving room for the government to manoeuvre. Russian risk pricing on the international capital market is also very tight, and some investors could use this event (and the entry of some new investors) to take profits. That said, it is not surprising that a recent Bloomberg survey revealed no clear positive RUB appreciation effect (relative to the USD) from a potential end to sanctions. However, Russia remains a very solid borrower among the major emerging markets, and should be less susceptible to US interest rate hike speculations and potential currency depreciation than other Emerging Markets thanks to the debt reductions in recent years.

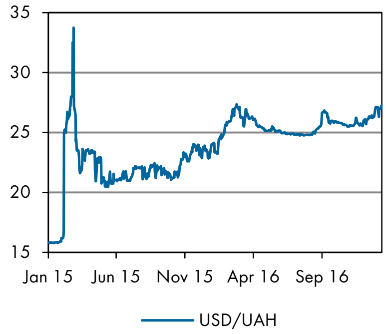
Financial analyst: Gunter Deuber (+43 1 71707 5707), RBI Vienna

Focus on Ukraine: A potential victim of US-Russian rapprochement

The outcome of the US presidential elections triggered fears that a potential "deal" between the USA and Russia could result in higher uncertainty and less support from the USA for Eastern European countries. Ukraine especially feels vulnerable in this respect. With the new US administration not taking office until 20 January, we can only speculate about the upcoming policy moves. But any substantial changes in Russian-US relations will have substantial and complex implications for Ukrainian domestic and foreign policy as well the country's economy given Ukraine's dependence on international and Western bilateral financial support and the key role of Western institutions in reforming Ukrainian state structures. From an economic point of view, one highly negative scenario would be any disturbance in the ongoing IMF programme, which is scheduled to run until 2018. In some cases, Ukrainian authorities have barely managed to keep the programme afloat given the vested economic interests preventing Ukraine from fully complying with the conditionality of the programme. Given these obstacles, we think there has been a (geo)political component in the IMF management board's decisions to continue supporting Ukraine until now. In our opinion, with a Trump administration and the important role of the USA in the IMF, it could be more challenging for Ukrainian authorities to secure the continuation of the IMF programme if key conditions like fighting corruption and moving forward with structural reforms are not fulfilled. Ukrainian authorities may possibly assess these challenges and increase their efforts to successfully fulfil the required minimum conditions of the ongoing programme. With regard to reforms in Ukraine, US officials (together with their EU colleagues) on the ground have been an important driver in past years. If the interest of the US in the success of Ukrainian reforms should weaken, the chances of the reforms succeeding could decrease. Moreover, the US has been providing direct financial support to Ukraine by guaranteeing Ukrainian internal debt issues. Overall, the USA has guaranteed USD 3 bn in bonds. According to the IMF programme, no additional US-guaranteed bonds are scheduled. Nevertheless, a Trump administration could be more reluctant to provide potentially needed bilateral financial support than the previous administration. However, with the external public debt repayment schedule still moderate this and next year due to earlier debt restructuring, and with the state budget deficit largely under control, this issue does not pose a substantial immediate risk to Ukraine's financial stability (though the psychological blow from a reduction in direct US support should not be underestimated).If US support for Ukraine were to be reduced, Ukraine could be "left" to the EU. That said, we do not see a strong willingness to offer bold support to Ukraine at EU level. Such a scenario of less US and limited EU support and disappointed expectations within the EU may also lead to a state of continuous fragility in Ukraine and could likewise make it difficult for the EU to push Ukrainian authorities to a more pragmatic stance towards Russia. Such an outcome could be interpreted as an "ideal scenario" for Russia, demonstrating the incapability of the EU and the "new elites" in Ukraine. A reunification of Ukraine remains a distant option under such a scenario. If instability in Ukraine continues, Russia may even be tempted to justify continued limited engagement in Donbass to "protect the Russian population from adverse developments". From a Ukrainian domestic policy perspective, a highly problematic scenario would be a US-Russia "deal" forcing Ukraine to accept substantial concessions in the Minsk agreements. Such concessions would be highly difficult to communicate to the population. With the current authorities being rather unpopular and populists on the rise for some time already, internal political quarrels could be destabilising for Ukraine. However, parliamentary and presidential elections are far off, scheduled for 2019. Thus if snap elections or a dissolution of the government-backing (minority) parliamentary coalition can be prevented, a major domestic political crisis could be avoided. Nevertheless, domestic political fragility would rise substantially in such a scenario. Likewise, a scenario where Ukraine would eventually make compromises and proceed with re-integrating the separated parts of Donbass along terms closer to the Russian positions would have its own political and economic risks. For example, resurging Russian influence on Ukraine policymaking would possibly be negative for the institutional and economic reform process. That said, our baseline scenario is still a continuation of IMF support for Ukraine. We view the situation in Donbass as rather stagnant, but unresolved for the foreseeable future. Nevertheless, heated discussions on foreign policy have already started in Ukraine given the election of Donald Trump, and will likely result in adjustments of Ukrainian political positions in 2017.

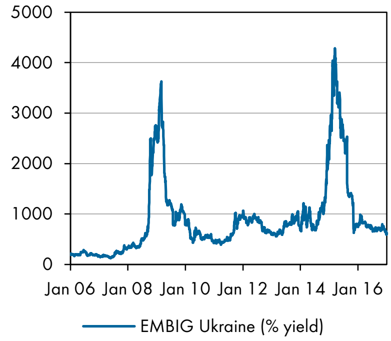
Financial analyst: Andreas Schwabe (+43 1 71707 1389), CFA, RBI Vienna

UAH exchange rate to USD



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Ukraine risk premium (bp)



Ukraine Eurobonds JPM EMBIG spread USD
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Data calendar and country coverage

This week, previous week: key data releases

Indicator	Period	Actual	Forecast	Previous
Friday 06 January				
RO: Retail sales, % yoy	Nov	9.3	n.a.	10.0
CZ: Trade balance, CZK bn	Nov	10.8	13.0	15.5
CZ: Industrial output, % yoy	Nov	7.0	5.7	-1.7
HU: Industrial output, % yoy	Nov	0.6	n.a.	-2.1
HU: Retail sales, % yoy	Nov	4.7	4.0	2.6
CZ: GDP, % yoy	Q3	1.9	1.9	1.9
RO: Key rate, %	Jan	1.75	1.75	1.75
UA: CPI, % yoy	Dec	12.4	n.a.	12.1
Monday 09 January				
RO: Trade balance, EUR mn	Nov	-865.5	n.a	-971.0
TR: Industrial output, % yoy	Nov	2.7	n.a	2.0
HU: Trade balance, EUR mn	Nov	908.0	800.0	903.0
Tuesday 10 January				
CZ: CPI, % yoy	Dec	2.0	1.9	1.5
BG: Industrial output, % yoy	Nov	4.3	n.a	2.8
BG: Retail sales, % yoy	Nov	6.1	n.a	2.9
SI: Industrial output, % yoy	Nov	7.4	n.a	6.6
RU: CPI, % yoy	Dec	5.4	n.a	5.4
BY: CPI, % yoy	Dec	10.6	-11.5	11.4
Wednesday 11 January				
CZ: Retail sales, % yoy	Nov	7.9	5.0	0.5
SK: Industrial output, % yoy	Nov	2.4	n.a	3.4
PL: Key rate, %	Jan	1.50	1.50	1.50
Thuesday 12 January				
RO: Industrial output, % yoy	Nov	1.5	n.a	0.8
HR: Retail sales, % yoy	Nov	2.7	n.a	2.7
RS: Key rate, %	Jan	4.00	n.a	4.00
Friday 13 January				
RO: CPI, % yoy	Dec	-0.5	-0.5	-0.7
RO: GDP, % yoy	Q3	4.3	4.4	4.4
SK: CPI, % yoy	Dec	0.2	n.a	-0.2
HU: CPI, % yoy	Dec	1.8	1.7	1.1
BG: CPI, % yoy	Dec	0.1	n.a	-0.5
CZ: C/A balance, CZK bn	Nov	4.6	9.0	17.0

Indicator	Period	Forecast	High	Mean	Low	Previous
Friday 13 January						
PL: C/A balance, EUR mn	Nov	-26.00	n.a.	n.a.	n.a.	-393.0
PL: Trade balance, EUR mn	Nov	174.0	n.a.	n.a.	n.a.	30.0
PL: CPI, % yoy	Dec	n.a	n.a.	n.a.	n.a.	0.8
RO: C/A balance, EUR mn	Nov	n.a	n.a	n.a	n.a	-2919.0
Monday 16 January						
HR: CPI, % yoy	Dec	-0.2	n.a.	n.a.	n.a.	-0.2
RU: Official reserve assets, USD bn	Nov	n.a.	392.0	381.0	375.0	385.3
BY: Industrial output, % yoy	Dec	-1.5	n.a.	n.a.	n.a.	5.1
Tuesday 17 January						
SI: Unemployment rate, % yoy	Nov	n.a.	n.a.	n.a.	n.a.	10.5
RU: C/A balance, USD mn	Q4	n.a.	12600.0	7700.0	1100.0	404.0
Wednesday 18 January						
SK: CPI, % yoy	Dec	n.a.	n.a.	n.a.	n.a.	-0.2
PL: Average Gross Wages, % yoy	Dec	3.8	5.9	4.0	2.9	4.0
PL: Employment rate, % yoy	Dec	3.0	3.1	3.1	2.9	3.1
Thursday 19 January						
PL: Industrial output, % yoy	Dec	0.9	3.9	1.6	-1.1	3.3
PL: Retail sales, % yoy	Dec	7.5	7.9	6.2	2.6	6.6
Friday 20 January						
HU: Average gross wages, % yoy	Nov	6.0	6.3	6.1	5.6	5.4
UA: Retail sales, % yoy	Dec	n.a.	n.a.	n.a.	n.a.	3.7

Source: Bloomberg, RBI/Raiffeisen RESEARCH

Bosnia a. H. (BA) – In terms of macroeconomic figures, GDP and balance of payments data as of 2016 Q3 took central stage during the week under review. The B&H economy maintained its growth momentum in Q3, expanding 2.4% yoy and 0.6% from the second quarter. The economic upturn was widespread across the categories, with only two areas (communications and public administration) in negative territory in the period from July to September 2016. On the other hand, the strongest contribution to GDP dynamics came from agriculture (9.5% yoy), financial and insurance activities (2.0% yoy) and industrial production (1.6% yoy). Consequently, real GDP in B&H registered a year-on-year increase of 1.8% in the first three quarters. It should also be noted that the GDP figures published by both entities' statistics agencies paint a much more favourable picture of the economic performance in the year. According to their publications, both entities (the B&H Federation and the RS entity) saw an increase of 2.4% yoy during the 2016 Q1-Q3 period. Therefore we will not be changing our real GDP target growth rate of 2.5% yoy for B&H this year as it is clear that the State Agency for Statistics will need to harmonise the GDP figures with the entity data. The C/A deficit of B&H narrowed in the first 9 months of 2016 by 21.9% yoy to BAM 995.6 mn, marking the lowest C/A reading since the CBBH has tracked BoP statistics (2007). The C/A deficit of B&H is largely financed by inflows of "other investments", which in the Q1–Q3 period reached a net value of BAM 1.01 bn (mostly loans and trade credit). The net inflow of FDI into the country fell to BAM 252.6mn (-38.1% yoy) and therefore B&H is facing its worst FDI print since data has been available (2007). In the coming week we expect the first macroeconomic figures for December 2016 (CPI and trade balance) to be published by the State Agency for Statistics.

Financial analyst: Srebrenko Fatusic (+387 33 287 916), Raiffeisen BANK d.d., Sarajevo

Croatia (HR) – In line with our expectations, the most recent data confirmed a worse foreign trade deficit in the first ten months in 2016 (+4.2% yoy), sending a warning about overall import dependence. However, the negative trade balance was partially mitigated by the deflationary environment, which resulted in lower imports, especially in the energy segment. Meanwhile, the latest PPI figures for December slowed down unexpectedly (-0.1% yoy), driven strongly by rising energy prices, which recorded positive growth for the first time since

April 2013. However, in 2016 the PPI recorded an average annual drop (by 4.1%) for the third year in a row. Based on the results available, we believe further foreign trade figures could finally result in a deeper trade deficit for 2016 as a whole.
Furthermore, the upcoming CPI data will attract attention next week and we forecast a marginal, positive increase (+0.2% yoy) on the back of the oil price recovery on the world's commodity market. This would be the first positive annual growth rate for 20 months. In other words, it is obvious that deflation has vanished and the year ahead is expected to see a return to modest but positive inflation rates.

Financial analyst: Tomislava Ujevic (+385 1 6174 606), Raiffeisenbank Austria d.d., Zagreb

Czech Republic (CZ) – On Tuesday released statistics has shown that the Czech consumer inflation in December achieved the 2% inflation target of the CNB. However, the CPI inflation in January will attract the highest attention. Higher CPI inflation in December, which mainly accelerated because of the increase in prices for food and partially also restaurant services, has increased the speculations on the Czech earlier FX cap removal. After inflation data release, the 12 months EUR/CZK forward points felt deeper. However, because of CNBs "hard commitment" it is very unlikely that "CZKexit" takes place before the end of March 2017. We still expect the CNB will abandon the FX commitment in the second half of this year. The CPI inflation in December exceeded the CNB forecast for the third time in row. Thus, we expect that in the next committee meeting in February, the CNB revises its inflation forecast upwards.

Financial analyst: Monika Junicke (+420 234 40 1070), Raiffeisenbank a.s., Prague

Hungary (HU) – This morning, we're going to see the inflation to be released: our expectation is that consumer prices jumped by 1.7% in last month compared to the previous year. In November the CPI was 1.1%. The big increase in headline figure is expected mainly to come from the base effect of energy prices. Service prices also expected to improve as increasing domestic demand amplifies them besides food prices. So, all in all, almost every component may have raised in December on an annual basis. Next week, we're going to have average gross wages also for November. For this we expect wage growth to tick up from 5.4% yoy to 7% yoy (vs market expectation of 6.1% yoy). On the market, the EUR/HUF remained in its declining trend channel with no significant trading flow. MM rates dropped (3m BUBOR by 4 bps to 0.3%) while LCY bond yields jumped, especially the longer ones by 7-15 bps. EUR-REPHUN yields remained flat, USD-REPHUN yields dropped by around 11 bps.

Financial analyst: Gergely Pálffy (+36 1 484 43 13), Raiffeisen Bank Zrt., Budapest

Poland (PL) – As expected, the MPC left the monetary policy parameters unchanged, with the reference rate at 1.5%. The Council in its statement pointed to a visible recovery in global industry, the expansionary monetary policy conducted by the ECB and the improving economic situation in the USA (visible mainly through the labour market). The Council pointed to the accelerating inflation rate, emphasising its exogenous nature at the same time (the rise in fuel prices), which indicates that the high CPI readings coming within the next few months will have no effect on MPC decisions regarding the interest rate level. Also, President A. Glapinski stressed during the press conference that he sees no room for interest rate hikes in 2017. The bond market experienced no significant impact after Wednesday's MPC decision, bearing in mind the upcoming events – Moody's and Fitch decision on rating today after market close. Our baseline scenario assumes no changes to the rating in both cases. However, the risk of a rating reduction remains high, and could cause a significant cut in the price of Polish bonds. Also on Friday we expect the final reading for the CPI indicator in December. The coming week (18 and 19 January) will see the publication of data on the real economy and labour market. We expect that both retail sales (supported by strong consumer demand) and industrial output (high PMI reading) may surprise on the upside.

Financial analyst: Aleksandra Pikała (+48 22 585 2000), Raiffeisen Polbank, Warsaw

Romania (RO) – Several fiscal easing measures were enforced by the new Parliament and Government recently or are due to be enforced, among the most important being: the tax exemption of pensions below RON 2000, the exemption of pensions from the payment of health contribution, the increase of wages from local administration by 20%, a 9% hike of pensions (pensions were already raised by 5% as of January). These fiscal measures would generate a first round effect of around 1.0% -1.1% of GDP on the public budget deficit for 2017, according to the computations made by President's economic advisors or those made by the Fiscal Council. Additional pressures on the public budget deficit in 2017 were generated by the reduction of the VAT rate, the cut of excises for fuels and the hike of wages in education and in healthcare, all effective as of January. Hence, we think that there are chances for the public budget deficit to significantly exceed 3% of GDP in 2017 if corrective measures are not adopted. In line with expectations, at the first monetary policy meeting in 2017, the Central Bank remained on hold as it kept unchanged the key interest rate (at 1.75%) as well as its other monetary policy instruments.

Financial analyst: Silvia Maria Rosca (+40 799 718 083), Raiffeisen BANK S.A., Bucharest

Russia (RU) – The World Bank published a new report on the Russian economy, where it stated the main constraints on GDP growth and economic development. According to the organisation, the main problems the Russian economy faces are concentrated in inefficient government management, the low level of state-provided services, poor quality infrastructure and a lack of competitiveness in some sectors of the economy. The following list is supplemented by an absence of improvement in the quality of human capital, low labour production and the sluggish investment climate. Overall, the problems and the ways to resolve them are not that new to market participants and policymakers. For instance, the World Bank proposes to increase investments in infrastructure that can boost economic growth, and to lower the share of the government sector in the economy.

Financial analyst: Stanislav Murashov (+7 495 221 9845), AO Raiffeisenbank, Moscow

Serbia (RS) – The National Bank of Serbia (NBS) kept flat key policy rate (4.0%) as expecting the inflation entering the new (lowered) target range 3% +/- 1.5pp and staying within the range due to the: aggregate local demand and oil price recovery on the global market, as well as the reflation in the euro-zone. The lower food production costs will still be having dis-inflationary impact. The decision was expected by all 25 analysts (Bloomberg survey) amid the divergence between the FED and ECB monetary policy and uncertain oil and food price development. The reflation, the traditionally seasonally driven EUR/RSD volatility in Q1 and May's presidential elections has all backed the decision. The NBS has also taken into the account the increase in the both RSD and EUR denominated MinFin T-bills auctioned this week. Such yield trending was both reflation backed, but also market dissatisfaction with the idea of rumored third early parliamentary elections amid protracted public administration reform and state owned enterprises privatization, bearing in mind the fiscal and economy outperformance, being prized by all three rating agencies. Hence, we reckon NBS will favor again FX interventions (Jan: EUR 95 mn) and repo operations. No important news flow, apart from the one Ministry of Finance T-bills auction scheduled for the next Tuesday (53w RSD 10 bn).

Financial analyst: Ljiljana GRUBIC (+381 11 320 2100), Raiffeisen Bank International AG, Austria

Slovakia (SK) – Despite overall optimism regarding the coming months, the readings from the Slovak Statistical Office were a bit disappointing this week. Industrial production has been decelerating for a few months now. November's reading just confirmed this trend. On the back of slower growth in the automotive industry, overall industrial production grew by only 2.4% yoy. Average growth from the beginning of the year is around 3.5% yoy. The severe decline in production by 11% yoy has also continued in the construction sector. The previous month's reading was even worse with a cut in production of 22% yoy. The lack of investment is visible mainly in infrastructure building. Due to the brisk real estate market and increased demand for new apartments, this part of the construction sector is the only part growing (6.4% yoy). On a more positive note, retail sales recorded their fastest growth in 2016. In November, retail sales grew by 3.9% yoy. Even the confidence indicator for this sector looks very promising. We expect retail sales together with other services to be one of the very important components of GDP growth in 2017. We expect inflation will grow by 0.1% yoy. This will be the first growth after 3 years of negative price growth. In 2017, price growth should accelerate further. At the end of this year, price growth should be over 1% yoy.

Financial analyst: Juraj Valachy (+421 259 19 2033), Tatra banka a.s., Bratislava

Monetary policy and money markets overview

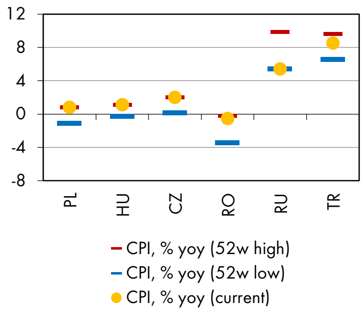
CEE key interest and money markets outlook

Poland	current*	Mar-17	Jun-17	Sep-17	5y high	5y low
Key interest rate	1.50	1.50	1.50	1.50	4.75	1.50
3m money market rate	1.73	1.73	1.73	1.73	5.14	1.65
Hungary						
Key interest rate	0.90	0.90	0.90	0.90	7.00	0.90
3m money market rate	0.30	0.30	0.30	0.40	7.65	0.30
Czech Republic						
Key interest rate	0.05	0.05	0.05	0.05	0.75	0.05
3m money market rate	0.28	0.30	0.30	0.30	1.25	0.00
Romania						
Key interest rate	1.75	1.75	1.75	1.75	5.75	1.75
3m money market rate	0.81	0.85	1.00	1.15	6.30	0.68
Russia						
Key interest rate	10.00	9.50	9.00	8.50	17.00	5.25
3m money market rate	10.59	10.10	9.60	9.10	29.93	6.65
Serbia						
Key interest rate	4.00	4.00	4.00	4.00	11.75	4.00
3m money market rate	3.49	3.60	3.60	3.60	13.13	3.26
Turkey						
Key interest rate	8.00	8.50	8.50	8.50	10.00	4.50
3m money market rate	10.31	10.30	10.50	10.20	12.44	4.85

Benchmark key rates	current	Mar-17	Jun-17	Sep-17	5y high	5y low
ECB key interest rate	0.00	0.00	0.00	0.00	1.00	0.00
Fed key interest rate	0.75	0.75	1.00	1.00	0.75	0.25

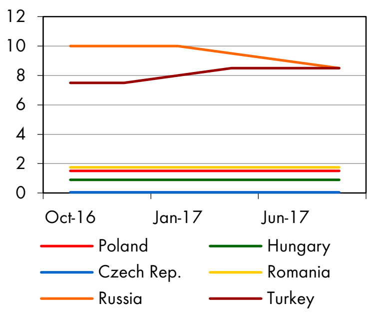
Source: Bloomberg, RBI/Raiffeisen RESEARCH
** Bid rates (for Hungary ask rates) as of 12 January 2017, 11:59 p.m. CET*

Inflation snapshot



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Key rate trends (%)



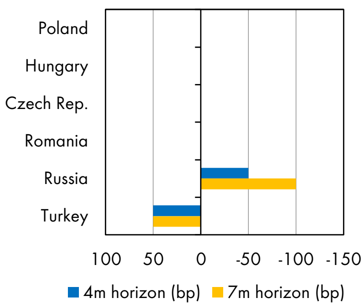
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Central bank watch

Poland (NBP)	NBP sees no reason to hike rates this year according to January's MPC statement. This is in line with our long-held view that the policy rate might remain flat at least in 2017. Our view is additionally supported by the prolongation of ECB QE.
Hungary (MNB)	MNB continues to keep monetary conditions ultra-loose via liquidity provisioning like capping 3m deposit volume further and providing FX swap operations. 3m deposit as well o/n and 1w lending rates should remain all at current 0.90% throughout 2017. Nevertheless, recent government-led growth boost could lead to exit from ultra-loose MP already in 2018.
Czech Republic (CNB)	CNB stays committed to its hard commitment, i.e. no "CZKexit" before Q2/2017, despite December's CPI headline increase to the bank's mid-point target. CNB repeatedly highlighted one-offs causing the CPI surge. Based on CNB's own fcsts, we regard CPI inflation in mid-2017 not as dynamic enough to tighten monetary conditions via a stronger CZK. We therefore still expect that "CZKexit" should come not earlier than H2 after inflation dynamics become stronger and ECB QE is coming to an end.
Romania (BNR)	Excess liquidity remains high and central bank did not to tighten its grip on liquidity and to set an end to procyclical policies. We expect BNR to remain defensive in the short term, especially in light of ongoing fiscal uncertainties, but verbal interventions might point to tightening stance in 2017.
Serbia (NBS)	NBS lowered inflation target range by 1pp to 3% +/- 1.5pp last year and has likely ended MP easing due expected acceleration in CPI inflation in the next few months. External risks in terms of Fed uncertainty, in light of the high share of USD-based investors in RSD bonds, might have eased somewhat.
Russia (CBR)	CBR might stick to its earlier forward guidance and continue with cautious rate cuts only in H1 (we expect Q1). Disinflation dynamics are healthy but in line with CBR expectations. Due to transition to structural liquidity surplus, CBR conducts 1w deposit auctions since this year.
Turkey (TCMB)	TCMB failed to put more coal on the fire in Dec. after half-hearted key rate hike in Nov. The latter and additional second-tier measures were not sufficient to bring ailing of lira markets to a more sustainable halt. We therefore expect that they have to make up leeway for this especially in light of expected lira pass-through to local prices and ongoing pressure from further Fed hikes this year.

Source: RBI/Raiffeisen RESEARCH

Key rate forecast (chg., bp)



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Rate setting meetings

	Jan	Feb
Poland (NBP)	11	8
Hungary (MNB)	24	28
Czech Republic (CNB)	/	2
Romania (BNR)	6	7
Serbia (NBS)	12	14
Russia (CBR)	/	3
Turkey (TCMB)	24	n.a.

Source: National Central Banks, RBI/Raiffeisen RESEARCH

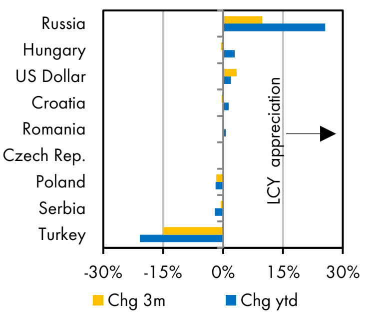
Foreign exchange market overview

FX forecasts

EUR vs	current*	Mar-17	Jun-17	Sep-17	5y high	5y low	Comment
PLN	4.374	4.40	4.45	4.40	4.40	4.08	EUR/PLN stable below 4.40 since the beginning of the year, but renewed pressure could flare up due to political uncertainty
HUF	307.1	310	315	310	316	291	Even though EUR/HUF broke out of its previous trading range we would expect it to return to the 310-315 range in the near-term
CZK	27.02	27.0	27.0	27.0	27.7	25.1	CNB wording did not change regarding abandoning of FX regime; inflation expectations key; CNB board also discussing negative rates
RON	4.492	4.45	4.50	4.45	4.54	4.45	EUR/RON exchange rate to be quite stable during 2017, but isolated episodes of increased volatility should not be totally excluded
HRK	7.537	7.55	7.47	7.50	7.66	7.55	a healthy C/A surplus, the better-than-expected fiscal adjustment, FCY inflows (investments), banks' positive net external balances and a slightly higher demand for pure HRK loans are still supportive for the HRK
RSD	123.8	123	123	124	125	112	Key rate kept stable, contributing to EUR/RSD stability
RUB	63.18	65.5	63.2	61.2	79.3	40.3	see USD/RUB below
UAH	29.06	29.1	27.5	27.5	29.4	10.6	see USD/UAH below
BYN	2.079	2.24	2.30	2.35	2.47	1.13	see USD/BYN below
TRY**	4.008	3.54	3.57	3.47	3.71	2.35	see USD/TRY below
USD	1.065	1.04	1.02	1.02	1.38	1.05	Expectation on further US Fed rate hikes to support USD against euro
USD vs	**current***	**Mar-17**	**Jun-17**	**Sep-17**	**5y high**	**5y low**	
RUB	59.30	63.0	62.0	60.0	73.0	30.5	Rouble supported by oil price increase following OPEC (and non-OPEC) production cut decision, but additional short-term appreciation potential below USD/RUB 60 limited in our view
UAH	27.28	28.0	27.0	27.0	28.0	8.05	USD/UAH calming after short-lived spike in late 2016; central bank preventing stronger USD/UAH movement via administrative measures, overall depreciation trend seen for coming months
BYN	1.952	2.15	2.25	2.30	2.35	0.86	From July 2016 the old Belarusian rouble (BYR) was replaced by a new BYN at a ratio of 10,000:1; it is the third denomination of the local currency after 1994 and 2000; overall depreciation trend in BYN expected to continue on weak fundamentals
TRY**	3.762	3.40	3.50	3.40	3.52	1.78	USD/TRY remaining at historic high levels; political uncertainty, weakening economic conditions, rising oil prices and strong USD weigh on TRY; a rate hike could stabilise the TRY market

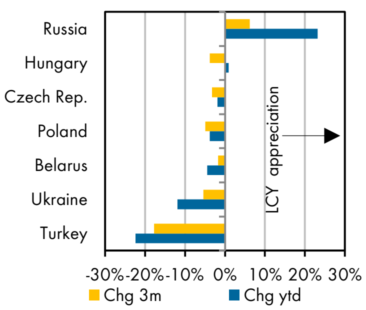
** as of 12 January 2017, 11:59 p.m. CET*
*** TRY forecasts under revision*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Change of LCY value to EUR (%)



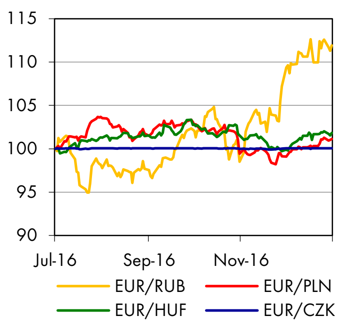
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Change of LCY value to USD (%)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

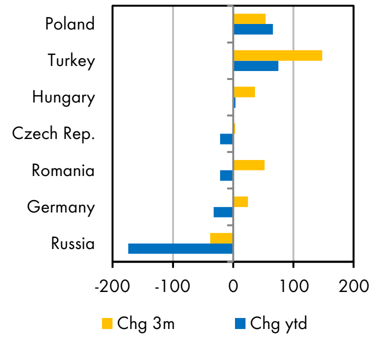
Exchange rate comparison



Indexed 12 Jul-16 = 100
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

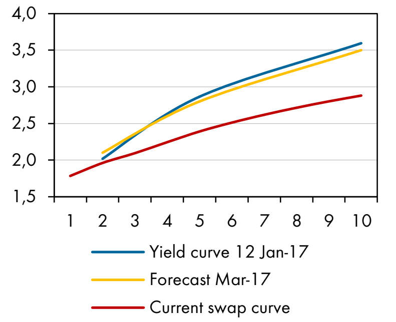
Local currency bond market overview and forecasts

Change of LCY 10y bond yields (bp)



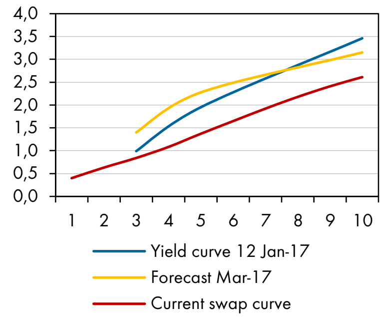
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

PLN yield curve



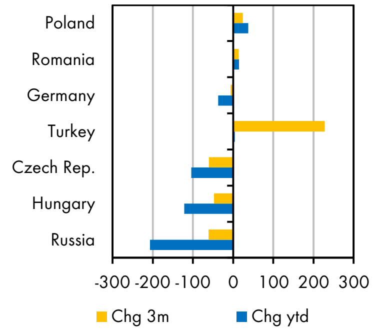
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

HUF yield curve



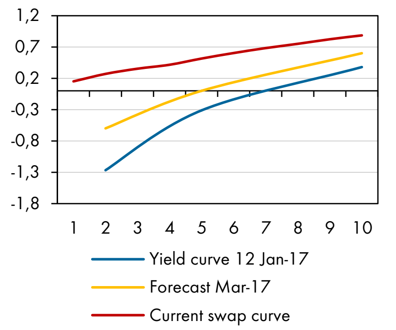
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

Change of LCY 2y bond yields (bp)



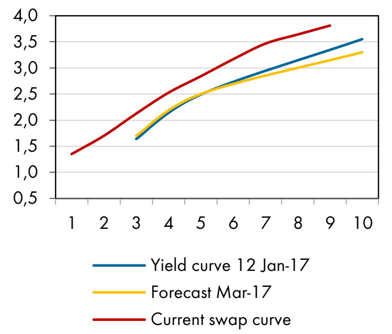
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

CZK yield curve



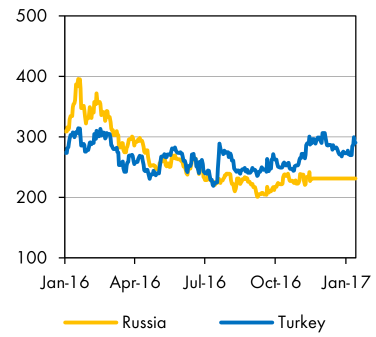
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

RON yield curve



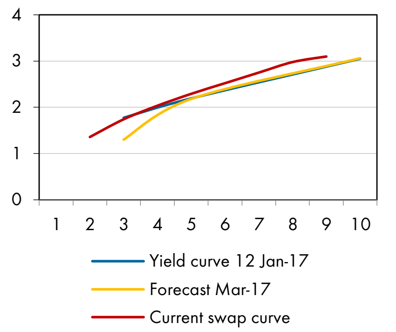
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

5y USD CDS spreads



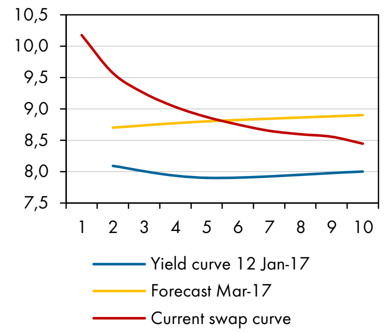
Turkey 5y high 327.1, 5y low 111.7;
Russia 5y high 628.7, 5y low 119.4
Source: Bloomberg, RBI/Raiffeisen RESEARCH

HRK yield curve



Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

RUB yield curve



Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

Yield forecasts

2y T-bond yields (%)	current*	Mar-17	Jun-17	Sep-17	5y high	5y low
Poland	2.02	2.1	2.2	2.2	3.1	1.6
Hungary **	0.99	1.4	1.5	1.6	5.7	0.9
Czech Republic	-1.27	-0.6	-0.7	-0.6	0.5	-0.9
Romania	1.64	1.1	1.2	1.3	6.4	1.4
Croatia **	1.77	1.8	1.8	1.9	6.9	0.9
Russia	8.09	8.7	8.7	8.5	15.8	6.2
Turkey	11.01	11.0	11.5	11.0	11.0	6.1
Germany	-0.72	-0.7	-0.7	-0.7	0.2	-0.8
USA	1.18	1.3	1.4	1.4	1.5	0.2

10y T-bond yields (%)	current*	Mar-17	Jun-17	Sep-17	5y high	5y low
Poland	3.60	3.5	3.6	3.7	4.3	2.5
Hungary	3.46	3.2	3.2	3.3	6.2	3.3
Czech Republic	0.38	0.6	0.6	0.5	2.5	0.5
Romania	3.55	3.3	3.4	3.5	6.9	3.5
Croatia	3.05	3.1	3.1	3.2	5.2	3.1
Russia	8.00	8.9	8.8	8.7	14.1	6.9
Turkey	11.22	11.6	11.8	11.6	11.5	6.6
Germany	0.15	0.5	0.5	0.5	1.9	0.1
USA	2.36	2.7	2.5	2.7	3.0	1.8

** Bid yields as of 12 January 2017, 11:59 p.m. CET; ** 3y yield*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Raiffeisen RESEARCH

Local currency bond market overview

CEE local currency bond market snapshot

	Maturity	Coupon (%)	Bid Price	YTM (%)	Spread to Bunds (bp)	MDur.	Comment
Poland							
PLN 2y Gov. Bond	25/10/2018	0.00	96.53	2.02	273	1.8	Recent political turmoil shrugged-off by POLGB market and we expect this to continue. With most of the repricing of US treasuries concluded and local rate hike expectations easing, POLGBs regained some attractiveness. Therefore we upgraded PL to tactical Buy to benefit from possible short-term relief gains.
PLN 5y Gov. Bond	25/10/2021	5.75	112.72	2.86	334	4.3	
PLN 10y Gov. Bond	25/07/2026	2.50	91.49	3.57	325	8.4	
Hungary							
HUF 3y Gov. Bond	30/10/2019	2.00	102.87	0.95	167	2.7	In line with our call, HGBs witnessed stronger recovery post-Trump in contrast to Poland and Romania. The bond-market-supporting CB measures and the state-led improvement of growth prospects are helping and should keep the appeal of HUF government assets alive.
HUF 5y Gov. Bond	27/10/2021	2.50	102.66	1.91	239	4.6	
HUF 10y Gov. Bond	27/10/2027	3.00	96.35	3.41	309	9.3	
Czech Republic							
CZK 2y Gov. Bond	11/04/2019	5.00	113.41	-0.88	-17	2.1	Long-end CZGB yield spread over Bunds remained cemented at ultra-low levels, limiting s/t spread tightening potential. As we expect EUR/CZK cap policy exit as early as end-2017 there should be time left for "CZKexit" positioning.
CZK 5y Gov. Bond	29/09/2021	3.85	119.97	-0.36	12	4.4	
CZK 10y Gov. Bond	26/06/2026	1.00	106.26	0.33	0	9.0	
Croatia							
HRK 2y Gov. Bond	10/07/2018	5.25	105.92	1.20	168	1.4	Indirect support from ECB QE prolongation should help HRK bonds in the new year.
HRK 10y Gov. Bond	14/12/2026	4.25	110.71	2.99	267	8.4	
Romania							
RON 2y Gov. Bond	17/01/2018	3.25	102.10	1.14	186	1.0	Fiscal risks in post-election period are set to continue weighing on longer-end ROMGBs with ECB support and FED risks currently balancing each other.
RON 5y Gov. Bond	22/03/2021	3.25	102.93	2.51	299	3.9	
RON 10y Gov. Bond	24/02/2025	4.75	108.68	3.51	319	6.7	
Russia							
RUB 2y Gov. Bond	27/02/2019	7.50	99.10	8.12	884	1.9	OFZs continued behaving well due to favorable oil/RUB developments. Because of deteriorating supply-demand dynamics next year, pressure on OFZs could increase, though. The long-term outlook is more constructive on resumed rate cuts.
RUB 5y Gov. Bond	18/08/2021	7.50	99.01	7.91	839	3.9	
RUB 10y Gov. Bond	03/02/2027	8.15	102.00	8.01	769	6.7	
Turkey							
TRY 2y Gov. Bond	11/07/2018	8.70	96.72	11.00	1172	1.4	TRY bonds amongst the hardest hit following the bear steepening of the UST curve in post-Trump trading with local factors adding considerable momentum to the TURKGB sell-off. We lifted our already bearish yield forecasts. We demand CB intervention in order to stabilise lira markets more sustainably before re-entering the market.
TRY 5y Gov. Bond	22/09/2021	9.20	92.60	11.23	1171	3.9	
TRY 10y Gov. Bond	11/02/2026	10.60	96.50	11.21	1089	5.6	

Data as of 13 January 2017, 11:30 a.m. CET
Source: Bloomberg, RBI/Raiffeisen RESEARCH

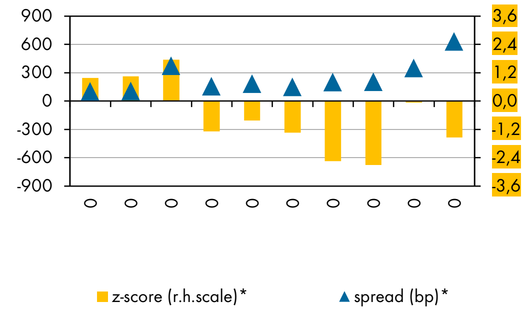
Bond auctions

		ISIN	Coupon	Maturity	Volume
16 January 2017					
PL	T-bills	n.a.	n.a.	n.a.	n.a.
RO	6y T-bonds	RO1522DBN056	3.50%	19.12.2022	RON 300 mn
SK	7y T-bonds	n.a.	3.38%	16.01.2024	n.a.
SK	12y T-bonds		3.63%	16.01.2029	n.a.
SK	10y T-bonds	RO1620DBN017	0.63%	16.01.2026	n.a.
17 January 2017					
RS	53w T-bills	n.a.	n.a.	n.a.	n.a.
18 January 2017					
RU	T-bonds	n.a.	n.a.	n.a.	n.a.
19 January					
HU	T-bonds	n.a.	n.a.	n.a.	n.a.
AL	3y T-bonds			19.01.2019	
RO	5m T-bills	RO1717CTN023	n.a.	02.08.2017	RON 500 mn

Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

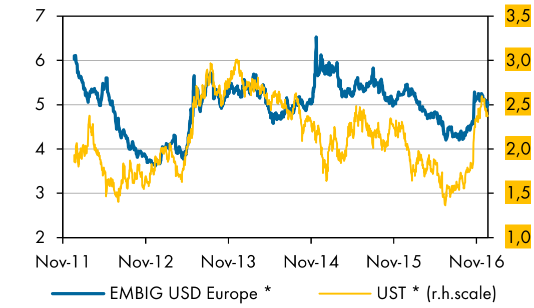
Eurobond market overview

CEE USD EMBIG spread valuation*



** z-score – EMBIG USD country spread deviation from mean normalised by 1 standard deviation, score at or below minus 1 = expensive, at or above 1 = cheap*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

CEE EMBIG USD vs. UST YTM*



** YTM – yield to maturity EMBI Global USD, UST – 10 year US Treasury note*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

	Market Price					YTM mid.	Spread	Mdur.	ISIN
Issuer/rate/due	**Bid**	**Ask**	**w/w %**	**5y max**	**5y min**	**% p. a.**	**Bmk, bp**	**years**	**–**
EUR									
BGARIA 4 1/4 07/09/17	102.2	102.5	0.05	111.8	100.3	-0.68	-3	0.5	XS0802005289
CROATI 5 7/8 07/09/18	108.4	108.6	-0.08	112.1	91.4	0.12	80	1.4	XS0645940288
REPHUN 3 7/8 02/24/20	111.3	112.1	0.12	113.1	70.1	0.10	78	2.9	XS0212993678
REPHUN 4 3/8 07/04/17	102.1	102.5	-0.01	108.0	77.8	-0.59	5	0.5	XS0284810719
REPHUN 5 3/4 06/11/18	108.1	108.3	-0.28	115.1	80.1	-0.11	56	1.3	XS0369470397
REPHUN 6 01/11/19	111.8	112.2	-0.11	118.4	86.4	-0.05	68	1.9	XS0625388136
LITHUN 4.85 02/07/18	105.5	105.6	-0.06	114.3	97.3	-0.35	29	1.0	XS0327304001
POLAND 5 5/8 06/20/18	108.2	108.6	-0.32	122.6	102.1	-0.26	41	1.4	XS0371500611
POLAND 1 5/8 01/15/19	103.1	103.5	0.00	105.5	98.0	-0.03	69	2.0	XS0874841066
POLAND 3 3/4 01/19/23	118.4	119.0	-0.11	125.5	99.9	0.58	89	5.3	XS0794399674
POLAND 3 3/8 07/09/24	116.9	117.4	0.11	125.6	99.6	0.99	109	6.6	XS0841073793
ROMANI 4 7/8 11/07/19	113.3	113.6	0.04	117.8	99.3	0.07	79	2.7	XS0852474336
TURKEY 5 7/8 04/02/19	108.7	109.1	-0.51	118.9	101.1	1.72	245	2.0	XS0285127329
TURKEY 5 1/8 05/18/20	107.6	108.1	-0.42	115.9	95.2	2.62	328	3.0	XS0503454166
USD									
BELRUS 8.95 01/26/18	103.2	104.1	-0.43	111.2	78.0	5.22	440	0.9	XS0583616239
CROATI 6 3/8 03/24/21	110.2	110.8	0.65	117.8	90.1	3.65	194	3.6	XS0607904264
CROATI 5 1/2 04/04/23	107.6	108.2	0.86	111.7	94.4	4.04	199	5.2	XS0908769887
REPHUN 5 3/8 02/21/23	110.6	111.0	0.42	115.4	93.1	3.40	137	5.1	US445545AH91
REPHUN 7 5/8 03/29/41	144.5	145.5	0.28	157.5	84.2	4.54	175	13.0	US445545AF36
LITHUN 7 3/8 02/11/20	114.2	114.7	-0.03	130.7	107.3	2.45	97	2.7	XS0485991417
LITHUN 6 5/8 02/01/22	116.9	117.4	0.11	128.6	101.0	2.94	106	4.2	XS0739988086
LATVIA 2 3/4 01/12/20	101.4	101.9	-0.02	104.5	91.4	2.18	73	2.9	XS0863522149
LATVIA 5 1/4 06/16/21	111.1	111.7	-0.07	117.2	92.2	2.50	75	4.0	XS0638326263
POLAND 6 3/8 07/15/19	111.1	111.3	-0.06	125.9	109.0	1.75	43	2.3	US731011AR30
POLAND 3 03/17/23	99.1	99.3	0.29	105.1	87.6	3.14	110	5.5	US731011AT95
ROMANI 6 3/4 02/07/22	115.3	115.5	0.20	124.4	99.2	3.40	153	4.2	US77586TAA43
ROMANI 4 3/8 08/22/23	104.6	105.0	0.51	111.1	90.8	3.55	144	5.6	US77586TAC09
RUSSIA 4 1/2 04/04/22	104.3	104.8	-0.43	114.7	82.0	3.53	163	4.6	XS0767472458
RUSSIA 7 1/2 03/31/30	120.3	120.7	-0.05	128.6	99.6	2.39	-8	3.8	XS0114288789
RUSSIA 5 5/8 04/04/42	109.6	110.4	-0.49	124.9	76.0	4.93	211	13.8	XS0767473852
SERBIA 5 1/4 11/21/17	102.3	102.8	0.01	107.1	96.8	2.15	140	0.8	XS0856951263
SERBIA 4 7/8 02/25/20	103.0	103.7	0.26	105.4	89.6	3.72	224	2.8	XS0893103852
TURKEY 6 1/4 09/26/22	103.2	103.8	-1.19	127.0	101.0	5.52	355	4.7	US900123BZ27
TURKEY 6 7/8 03/17/36	101.7	102.2	-2.08	139.6	99.2	6.69	406	10.4	US900123AY60
TURKEY 6 3/4 05/30/40	100.1	100.9	-2.25	139.4	97.3	6.71	394	11.6	US900123BG46
UKRAIN 7 3/4 09/01/19	100.8	101.3	-1.16	102.3	88.0	7.32	596	2.3	XS1303918269
UKRAIN 7 3/4 09/01/23	97.5	98.0	-1.45	99.9	84.6	8.19	607	4.9	XS1303921487
UKRAIN 7 3/4 09/01/27	95.3	95.7	-1.10	98.4	81.2	8.40	601	6.8	XS1303927179

YTM mid - yield to maturity based on mid market price, bmk - benchmark, Mdur - modified duration, ISIN - international security identification number; prices as of 13 Jan 2017, 9:48 AM CET
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Summary: Ratings & macro data

Country ratings: CE, SEE, EE

	S&P			Moody's			Fitch		
	LCY	FCY	Outlook	LCY	FCY	Outlook	LCY	FCY	Outlook
CE									
Poland	A-	BBB+	stable	A2	A2	negative	A	A-	stable
Hungary	BBB-	BBB-	stable	Baa3	Baa3	stable	BBB-	BBB-	stable
Czech Republic	AA	AA-	stable	A1	A1	stable	AA-	A+	stable
Slovakia *	A+	A+	stable	A2	A2	stable	A+	A+	stable
Slovenia *	A	A	positive	Baa3	Baa3	positive	A-	A-	stable
SEE									
Romania	BBB-	BBB-	stable	Baa3	Baa3	positive	BBB	BBB-	stable
Bulgaria	BB+	BB+	stable	Baa2	Baa2	stable	BBB	BBB-	stable
Croatia	BB	BB	stable	Ba2	Ba2	negative	BB+	BB	negative
Serbia	BB-	BB-	positive	B1	B1	positive	BB-	BB-	stable
EE									
Russia	BBB-	BB+	stable	Ba1	Ba1	negative	BBB-	BBB-	stable
Ukraine	B-	B-	stable	Caa3	Caa3	stable	B-	B-	stable
Belarus	B-	B-	stable	Caa1	Caa1	negative	B-	B-	stable
Kazakhstan	BBB-	BBB-	negative	Baa3	Baa3	negative	BBB	BBB	stable
Turkey	BB+	BB	stable	Ba1	Ba1	stable	BBB-	BBB-	negative

** Euro area (Euro currency) members; positive rating/outlook changes (in previous week) in green, negative changes in red*
Source: rating agencies websites

Main macro data & forecasts*

Country	Year*	GDP, % avg. yoy	CPI, % avg. yoy	Unem-ployment, %	Nominal wages, EUR	Fiscal balance, % GDP	Public debt, % GDP	Export **, % GDP	C/A, % GDP	Ext. Debt, % GDP	FXR***% ext. debt	Import cover, months
Croatia	2016	2.7	-1.2	13.6	1030	-2.4	85.3	24.3	3.1	96.5	30.2	8.8
	2017f	2.8	1.3	12.5	1047	-2.9	84.5	24.1	2.5	94.0	30.3	8.8
	2018f	2.8	2.2	11.2	1067	-2.8	82.9	23.8	2.2	91.5	29.8	8.6
Czech Rep.	2016	2.5	0.7	5.6	1020	0.0	39.2	70.0	2.4	73.0	63.2	8.4
	2017f	2.7	2.0	5.3	1073	-0.2	38.2	69.8	1.5	77.1	71.5	10.0
	2018f	2.5	2.0	5.3	1176	0.0	37.0	69.3	1.2	73.9	69.5	9.4
Hungary	2016	2.3	0.3	5.3	847	-1.5	74.1	83.8	3.5	97.8	23.5	3.7
	2017f	3.2	2.5	4.5	937	-2.5	73.4	82.7	3.2	89.0	22.5	3.2
	2018f	3.4	3.0	4.1	1010	-3.0	72.6	82.2	2.9	83.2	21.1	2.8
Poland	2016	2.5	-0.6	9.0	930	-2.5	52.2	41.4	-0.5	74.3	29.1	6.3
	2017f	3.0	1.1	8.3	964	-3.1	53.3	41.6	-0.8	77.2	28.8	6.4
	2018f	2.5	2.0	8.2	1019	-3.4	54.9	n.a.	-1.1	77.5	27.4	n.a.
Romania	2016	4.7	-1.6	6.1	642	-2.5	38.2	30.5	-2.6	54.5	40.5	7.3
	2017f	3.6	1.2	5.8	700	-3.2	39.3	30.8	-3.3	53.1	40.0	6.8
	2018f	3.0	2.4	5.7	732	-3.0	40.2	32.2	-3.5	53.6	38.3	6.2
Russia	2016	-0.5	7.2	6.0	476	-4.4	13.5	23.0	2.1	40.7	80.6	25.6
	2017f	1.0	5.4	6.0	587	-3.3	14.0	24.6	5.2	32.6	86.0	22.4
	2018f	1.5	5.2	6.0	594	-2.4	14.5	23.7	5.7	27.0	98.0	21.3
Ukraine	2016	1.0	13.3	9.0	n.a.	-3.5	77.5	36.3	-3.3	133.4	14.0	5.2
	2017f	2.0	10.7	9.0	n.a.	-4.0	78.4	36.3	-4.7	126.6	14.5	5.0
	2018f	3.0	7.5	8.5	n.a.	-3.0	73.0	35.0	-3.9	119.6	14.6	5.0
Turkey	2016	2.0	7.6	10.0	n.a.	-2.0	32.0	21.7	-5.2	57.5	28.1	6.8
	2017f	2.0	8.0	10.3	n.a.	-2.5	33.0	23.9	-5.8	60.9	25.7	6.0
	2018f	3.5	7.5	10.0	n.a.	-1.8	32.0	n.a.	-4.5	57.8	22.1	n.a.

** only for countries included in CEE Weekly, ** Export of goods only, *** FXR - Foreign exchange reserves*
Source: Thomson Reuters, National Statistics, RBI/Raiffeisen RESEARCH

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- Performance of a financial instrument, a financial index or a securities service is reduced by commissions, fees and other charges, which depend on the individual circumstances of the investor.
- The return on an investment in a financial instrument, a financial or securities service can rise or fall due to exchange rate fluctuations.
- Forecasts of future performance are based purely on estimates and assumptions. Actual future performance may deviate from the forecast. Consequently, forecasts are not a reliable indicator for future results and the development of a financial instrument, a financial index or a securities service.

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Bonds

Distribution of long term recommendations (preceding 12 months prior to this publication)	
Recommendation	Basis: all analysed Government bonds
Buy	0%
Hold	0%
Sell	100%
Not rated	0%

Distribution of short term recommendations (preceding 3 months prior to this publication)	
Recommendation	Basis: all analysed Government bonds
Buy	23%
Hold	52%
Sell	25%
Not rated	0%

History of short term recommendations (preceding 3 months prior to this publication)

Date	10Y Czech Rep.	10Y Hungary	10Y Poland	10Y Romania	10Y Russia	10Y Turkey
15/12/2016	Hold	Buy	Buy	Hold	Hold	Sell
28/11/2016	|	|	|	|	|	|
24/11/2016	|	|	|	|	Hold	|
21/10/2016	|	|	|	|	|	|
26/09/2016	|	|	|	|	|	|
23/09/2016	Hold	Hold	Hold	Hold	Buy	Sell
26/08/2016	|	|	|	|	|	|
25/08/2016	Hold	Buy	Hold	Hold	Buy	Sell
29/07/2016	Hold	Buy	Hold	Hold	Buy	Sell
27/07/2016	|	|	|	|	|	|
21/07/2016	|	|	|	|	|	Sell
20/06/2016	Hold	Buy	Hold	Hold	Buy	Buy
31/05/2016	Hold	Buy	Hold	Hold	Buy	Buy
13/05/2016	|	|	|	|	|	|
26/04/2016	Hold	Buy	Hold	Hold	Hold	Hold
20/04/2016	|	|	|	|	|	|
30/03/2016	|	|	|	|	|	|
29/03/2016	|	|	|	|	|	|
24/03/2016	Hold	Buy	Hold	Hold	Hold	Sell
17/03/2016	|	|	|	|	|	|
23/02/2016	Buy	Buy	Hold	Hold	Hold	Hold
11/02/2016	Buy	Buy	Hold	Hold	Hold	Hold
25/01/2016	Buy	Buy	Hold	Hold	Not rated	Hold

Date	2Y Czech. Rep.	2Y Poland	2Y Russia	2Y Turkey	5Y Czech Rep.	5Y Hungary
15/12/2016	Hold	Hold	Buy	Sell	|	|
28/11/2016	|	|	|	|	|	|
24/11/2016	|	|	Hold	|	|	|
21/10/2016	|	|	|	|	|	|
26/09/2016	|	|	|	|	|	|
23/09/2016	Hold	Hold	Buy	Sell	|	|
26/08/2016	|	|	|	|	|	|
25/08/2016	Hold	Hold	Buy	Sell	|	|
29/07/2016	Hold	Hold	Buy	Sell	|	|
27/07/2016	|	|	|	|	|	|
21/07/2016	|	|	|	Sell	|	|
20/06/2016	Hold	Hold	Buy	Buy	|	|
31/05/2016	Hold	Hold	Buy	Buy	|	|
13/05/2016	|	|	|	|	|	|
26/04/2016	Hold	Hold	Hold	Hold	|	|
20/04/2016	|	|	|	|	|	|
30/03/2016	|	|	|	|	|	|
29/03/2016	|	|	|	|	|	|
24/03/2016	Hold	Hold	Hold	Sell	|	|
17/03/2016	|	|	|	|	|	|
23/02/2016	Hold	Hold	Hold	Hold	|	|
11/02/2016	Hold	Buy	Hold	Hold	|	|
25/01/2016	Hold	Buy	Not rated	Hold	Not rated	Not rated

Date	5Y Poland	5Y Romania	5Y Russia	5Y Turkey	BG EUROBOND EUR	BY EUROBOND USD
15/12/2016						
28/11/2016					Hold	
24/11/2016						
21/10/2016						Sell
26/09/2016					Buy	
23/09/2016						
26/08/2016						
25/08/2016						
29/07/2016					Hold	
27/07/2016						
21/07/2016						
20/06/2016					Buy	Hold
31/05/2016						
13/05/2016					Hold	Hold
26/04/2016					Hold	Hold
20/04/2016					Buy	Hold
30/03/2016						Hold
29/03/2016					Buy	Hold
24/03/2016					Hold	Hold
17/03/2016					Hold	
23/02/2016					Hold	Hold
11/02/2016						
25/01/2016	Not rated	Not rated	Not rated	Not rated	Hold	Hold

Date	CZ EUROBOND EUR	HR EUROBOND EUR	HR EUROBOND USD	HU EUROBOND EUR	HU EUROBOND USD	KZ EUROBOND USD
15/12/2016			Hold			
28/11/2016		Hold				Buy
24/11/2016						
21/10/2016						
26/09/2016		Buy	Sell			
23/09/2016						
26/08/2016						Hold
25/08/2016						
29/07/2016				Hold	Hold	Buy
27/07/2016						
21/07/2016						
20/06/2016	Hold	Sell	Sell	Buy	Buy	Hold
31/05/2016						
13/05/2016	Hold	Hold	Hold	Hold	Hold	Hold
26/04/2016	Hold	Hold	Hold	Hold	Hold	Hold
20/04/2016	Hold	Hold	Hold	Hold	Hold	Buy
30/03/2016						
29/03/2016	Hold	Hold	Hold	Hold	Hold	Buy
24/03/2016	Hold	Hold	Hold	Hold	Hold	Buy
17/03/2016	Hold	Hold	Hold	Buy	Buy	Buy
23/02/2016	Hold	Hold	Hold	Buy	Buy	Buy
11/02/2016						
25/01/2016	Hold	Hold	Hold	Hold	Hold	Hold

Date	LT EUROBOND EUR	LT EUROBOND USD	MK EUROBOND EUR	PL EUROBOND EUR	PL EUROBOND USD	RO EUROBOND EUR
15/12/2016		Buy	Hold			Hold
28/11/2016				Hold		Buy
24/11/2016						
21/10/2016						
26/09/2016				Buy		
23/09/2016						
26/08/2016						
25/08/2016				Hold	Hold	
29/07/2016						Hold
27/07/2016			Buy			
21/07/2016						
20/06/2016	Hold	Hold	Hold	Sell	Sell	Sell
31/05/2016						
13/05/2016	Hold	Hold	Hold	Sell	Sell	Hold
26/04/2016	Hold	Hold	Hold	Sell	Sell	Hold
20/04/2016	Buy	Hold	Hold	Buy	Hold	Hold
30/03/2016						
29/03/2016	Buy	Hold	Buy	Buy	Hold	Hold
24/03/2016	Hold	Hold	Buy	Buy	Buy	Hold
17/03/2016	Hold	Hold	Buy	Buy	Buy	Hold
23/02/2016	Hold	Hold	Buy	Buy	Buy	Hold
11/02/2016						
25/01/2016	Hold	Hold	Buy	Buy	Buy	Hold

<table>
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