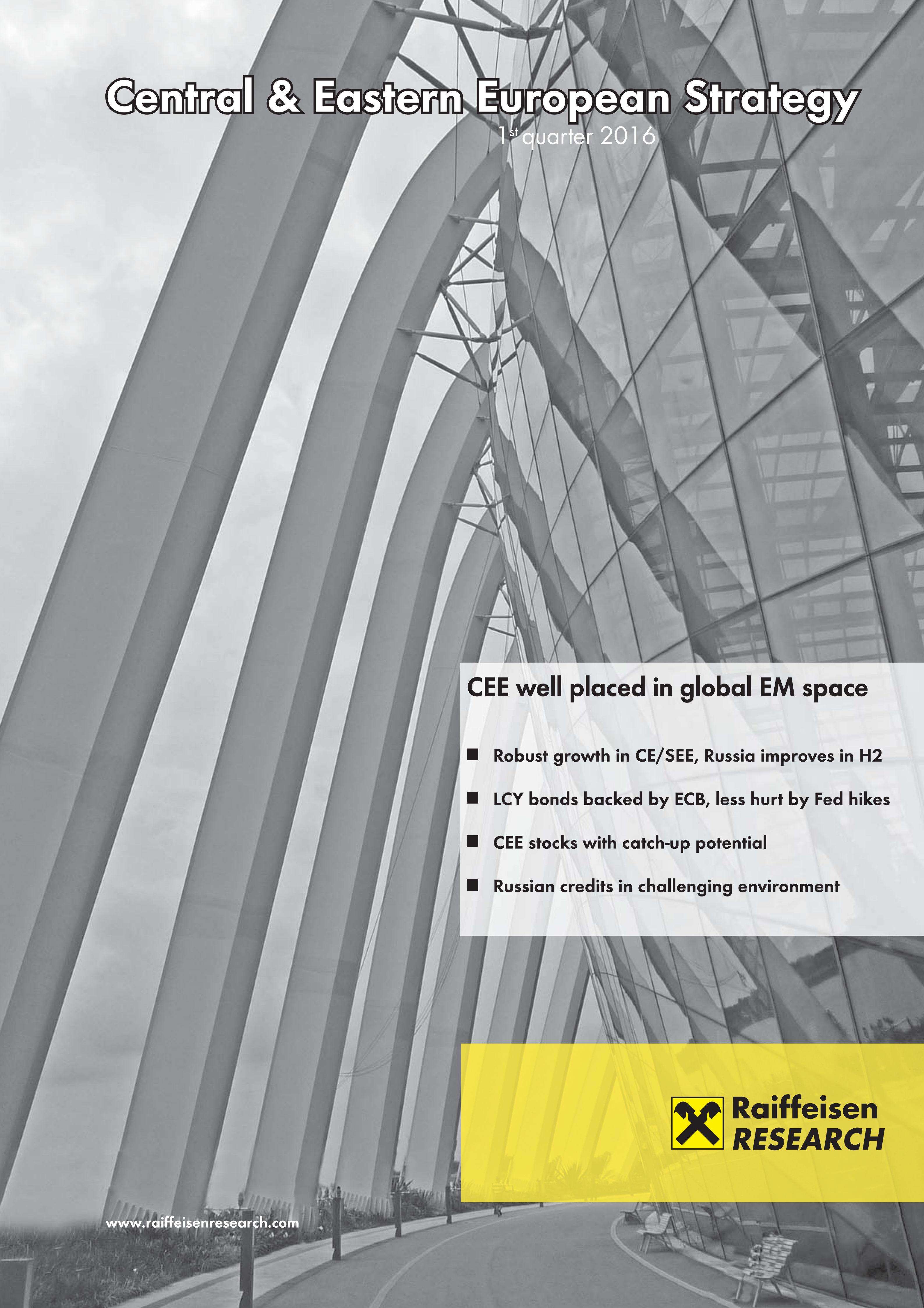

Central & Eastern European Strategy

1st quarter 2016

CEE well placed in global EM space

- Robust growth in CE/SEE, Russia improves in H2
- LCY bonds backed by ECB, less hurt by Fed hikes
- CEE stocks with catch-up potential
- Russian credits in challenging environment

Raiffeisen RESEARCH

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Central & Eastern European Strategy

Explanation:

e ... estimate (current year)
f ... forecast
p ... preliminary figures
n.v. ... no value

Abbreviations

Currencies and Countries

ALL	Albanian lek
BAM	Bosnian marka
BGN	Bulgarian lev
BYR	Belarusian roubel
CZK	Czech koruna
EKK	Estonian kroon
HUF	Hungarian forint
HRK	Croatian kuna
LTL	Lithuanian litas
LVL	Latvian lats
PLN	Polish zloty
RON	Romanian leu
RSD	Serbian dinar
RUB	Russian rouble
TRY	Turkish lira
UAH	Ukrainian hryvnia

Economic abbreviations

%-chg	Percentage change (not in percentage points)
avg	average
bp	basis points
C/A	Current Account
CPI	Consumer Price Index
ECB	European Central Bank
FCY	Foreign Currency
FDI	Foreign Direct Investments
FX	Foreign Exchange
FY	Full year
GB	Government bond
GDP	Gross Domestic Product
HCPI	Harmonized Consumer Price Index
LCY	Local Currency
mmav	month moving average
mom	month on month
MP	Monetary policy
MPC	Monetary policy council
O/N	overnight rate
pp	percentage points
PMI	Purchasing Manager Index
PPI	Producer Price Index
QE	Quantitativ easing
qoq	quarter on quarter
qtd	quarter to date
REPO	Repurchase agreement
T/B	Trade Balance
ULC	Unit Labour Costs
UST	US Treasury bond
YC	yield curve
yoy	year on year
ytd	year-to-date

Sovereign Bond markets

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

Stock Exchange Indices

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

Fixed income indices

EMBIG	JP Morgan Emerging Markets Bond Index Global
CEMBI	JP Morgan Corporate Emerging Markets Bond Index

Equity related

DY	Dividend yield
EBIT	Earnings before interest and taxes
EBITDA	earnings before interest, taxes, depreciation, and amortization
EBT	earnings before taxes
EPS	earnings per share
EG	Earnings growth
LTG	Long term (earnings) growth
NIBD	Net interest bearing debt
P/B	Price book ratio
P/E ratio	Price earnings ratio
RoE	Return on equity
ROCE	Return on capital employed
RS	Recommendation suspended
UR	Under Revision

Euro area (EA)	*Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovenia, Slovakia, Spain*
CE	*Central European countries – Poland, Hungary, Czech Republic, Slovakia, Slovenia*
SEE	*South East European countries – Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Romania, Serbia*
EE	*Eastern Europe (Russia, Ukraine, Belarus)*
CEE	*Central and Eastern Europe (CE + SEE + EE)*

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

Whose influence is greater: the ECB or Federal Reserve?

- **Monetary policy remains expansive in CE, backed by the European Central Bank**
- **Solid economic conditions in CE and SEE, mounting political risks**
- **Gradual return to positive inflation rates**

The ultra-expansive monetary policy of the European Central Bank (ECB) will also have an effect on the Eastern European EU countries in 2016. Along with the euro area countries Slovakia and Slovenia, the zero interest rate policy of the ECB also has specific effects on the room for manoeuvre of the national central banks in Poland, the Czech Republic, Hungary, and Romania. The historic low interest rates can also be maintained in those countries in 2016, even if there is a modest increase in inflation during the year. In Hungary, interest rates may even be lowered further, and in the Czech Republic the Czech koruna will continue to be tied to the euro until at least the end of 2016. In Poland, the delegation of new members to the Monetary Council early in the year will show whether a more Hungarian-style monetary policy will be introduced.

By contrast, the US Federal Reserve has a certain influence on developments in Russia and Ukraine, which have significant amounts of FX financing. The respective central banks, however, will try to lower the high key rates as much as possible, to the extent that this is allowed by the unsatisfactory development of inflation. Economic developments in CE and SEE will mainly be determined by domestic demand in 2016. While economic dynamics may taper off slightly in Central Europe due to the decline in EU investment funds, the situation in the Balkan countries should improve mildly. Private consumption should also make a growth contribution in Austria, due to the reduction in taxes on wages. In conjunction with rising investment in plant and equipment and public consumption, GDP growth of 1.8% is possible in 2016.

Russia and Ukraine should emerge from the deep recession, but 2016 does not look like it will have much more in store than just stabilisation at a low level. Persistently high inflation is a problem in both countries. The forecast for the oil price is a key factor for Russia in particular. After a weak start to the year, we project the price of Brent oil rising to just over USD 60 during the second half of the year, as the current oversupply conditions disappear.

Impact on currencies

As a result, the Russian rouble should tend to remain weak in the first half of the year, but then rebound in the second half in parallel with oil and restrained cuts in interest rates. With regard to the Czech koruna, we believe the tie to the euro at CZK 27 will be extended at least until the end of the year. HUF should move between 310 and 320, and RON between 4.40 and 4.55, both on a sideways trend versus EUR. The improvement for PLN should be driven by easing political risks.

Impact on the bond and equity markets

After quite mixed equity market developments in 2015, we expect a generally upbeat start to the year. We see Russia, Romania, and Hungary leading the way. We think that the ATX will be able to successfully breach the line of resistance at 2,500 points. As for the CEE bond markets, we project rising yield levels especially in the second half of the year. By contrast, the developments in Russia and Turkey should differ from the other CEE bond markets, with an initial correction in yields, followed by a mild downward trend.

Financial analyst: Peter Brezinschek, RBI Vienna

CEE: Market strategy*

	Eurobonds		LCY Bonds		FX
	EUR	**USD**	**2y**	**10y**	**–**
BG	H (H)	–	–	–	–
HR	S (S)	S (S)	–	–	H (H)
CZ	H (H)	H (H)	H (H)	H (H)	H (H)
HU	B (H)	B (H)	B (B)**	B (B)	B (H)
PL	B (H)	B (H)	B (H)	H (H)	H (H)
RO	B (H)	B (H)	B (H)	B (H)	B (H)
RU	H (H)	H (H)	B (H)	H (H)	B (H)
RS	–	S (S)	–	–	H (H)
SK	H (H)	–	–	–	–
SI	H (B)	–	–	–	–
TR	B (H)	H (H)	H (H)	H (H)	H (H)
UA	–	S (H)	–	–	H (S)
BY	–	H (S)	–	–	S (S)

* **LCY bonds:** *based on absolute performance in LCY*
HU: 3y, not 2y tenor
Previous recomm. (as of 4 Nov. 2015) in brackets
Eurobonds: *based on expected spread change*
Previous recomm. (as of 2 Sep. 2015) in brackets
FX *vs. EUR*
Recomm. horizon: **end 1st quarter 2016**
B: Buy; H: Hold; S: Sell
Source: RBI/Raiffeisen RESEARCH

Recommendations[1] – stock markets

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

Equities

AGRANA
Current share price: EUR 87.0
Target price: EUR 109.09
Palfinger
Current share price: EUR 26.40
Target price: EUR 31.50
Asseco Poland
Current share price: PLN 54.80
Target price: PLN 72.00
BZ WBK
Current share price: PLN 275.5
Target price: PLN 328.0
Novatek
Current share price: USD 83.65
Target price: USD 106.0

Recommendations[1] – debt markets

Corporate bonds		**curr.[2]**
Buy	Lukoil 7.25% due 2019	373

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

Real GDP (% yoy)

Countries	2014	2015e	Consensus	2016f	Consensus	2017f	Consensus
Poland	3.3	3.5	*3.5*	3.6	*3.5*	3.4	*3.4*
Hungary	3.7	2.8	*2.7*	2.2	*2.3*	2.9	*2.4*
Czech Rep.	2.0	4.3	*4.3*	2.4	*2.5*	2.4	*2.6*
Slovakia	2.5	3.5	*3.3*	3.5	*3.2*	3.5	*3.1*
Slovenia	3.0	2.7	*2.5*	2.2	*2.0*	2.1	*2.3*
CE	**3.0**	**3.5**	*3.5*	**3.1**	*3.0*	**3.1**	*3.0*
Croatia	-0.4	1.5	*1.4*	1.0	*1.4*	1.5	*1.5*
Bulgaria	1.7	2.7	*2.6*	2.1	*2.4*	3.0	*2.5*
Romania	2.8	3.7	*3.7*	4.0	*3.9*	3.6	*3.4*
Serbia	-1.8	0.5	*0.6*	2.5	*1.8*	3.0	*2.2*
Bosnia a. H.	1.0	2.0	*2.4*	3.0	*2.9*	3.5	*3.1*
Albania	2.0	2.7	*2.7*	3.5	*3.4*	4.0	*3.6*
Kosovo	0.9	3.0	*2.6*	3.0	*3.4*	3.5	*3.7*
SEE	**1.5**	**2.8**	2.8	**3.0**	3.0	**3.2**	2.9
Russia	0.6	-4.0	*-3.8*	0.0	*-0.2*	1.5	*1.0*
Ukraine	-6.8	-10.0	*-11.1*	1.5	*1.3*	3.0	*2.4*
Belarus	1.6	-4.0	*-3.8*	0.0	*0.1*	1.5	*1.3*
EE	**0.2**	**-4.4**	*-4.3*	**0.1**	*-0.1*	**1.6**	*1.1*
Turkey	2.9	3.5	*3.2*	2.5	*2.9*	3.5	*3.4*
Austria	**0.4**	**0.9**	*0.8*	**1.8**	*1.4*	**1.5**	*1.6*
Germany	1.6	1.5	*1.7*	2.2	1.8	1.8	*1.7*
Euro area	**0.9**	**1.4**	*1.5*	**1.9**	*1.7*	**1.7**	*1.7*
USA	**2.4**	**2.5**	2.5	**2.5**	2.5	**2.2**	2.4

Source: wiiw, RBI/Raiffeisen RESEARCH

Consumer prices (avg, % yoy)

Countries	2014	2015e	2016f	2017f
Poland	0.0	-0.9	1.3	2.0
Hungary	-0.2	0.0	1.9	2.7
Czech Rep.	0.4	0.4	1.3	2.0
Slovakia	-0.1	-0.2	0.7	2.5
Slovenia	0.2	-0.1	0.2	0.9
CE	**0.1**	**-0.4**	**1.3**	**2.1**
Croatia	-0.2	-0.4	1.1	1.5
Bulgaria	-1.4	0.1	2.2	3.0
Romania	1.1	-0.6	-0.3	2.7
Serbia	2.9	1.4	4.0	4.5
Bosnia a. H.	-0.9	-0.5	1.0	2.0
Albania	1.6	1.8	2.5	3.0
Kosovo	0.4	-0.5	1.5	2.0
SEE	**0.7**	**-0.2**	**0.9**	**2.7**
Russia	7.8	15.6	8.8	8.4
Ukraine	12.1	48.5	16.0	10.0
Belarus	18.1	17.0	16.0	16.0
EE	**8.5**	**17.7**	**9.5**	**8.8**
Turkey	8.9	7.6	8.1	7.0
Austria	**1.5**	**0.8**	**1.6**	**2.0**
Germany	0.8	0.3	1.9	2.7
Euro area	**0.4**	**0.1**	**1.4**	**1.6**
USA	**1.6**	**0.1**	**2.0**	**2.7**

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Current account balance (% of GDP)

Countries	2014	2015e	2016f	2017f
Poland	-2.0	-0.1	-1.1	-1.7
Hungary	3.9	3.7	3.7	3.6
Czech Rep.	0.6	1.0	1.1	-0.4
Slovakia	0.1	-1.4	-0.7	-0.5
Slovenia	7.0	6.5	5.6	4.9
CE	**-0.1**	**0.8**	**0.3**	**-0.3**
Croatia	0.8	4.7	1.5	1.5
Bulgaria	0.0	3.9	0.8	-0.5
Romania	-0.5	-1.0	-2.5	-3.3
Serbia	-6.0	-4.6	-5.2	-5.7
Bosnia a. H.	-7.6	-7.0	-7.6	-8.1
Albania	-12.6	-12.9	-13.0	-13.7
Kosovo	-8.2	-7.9	-7.7	-8.0
SEE	**-1.7**	**-0.7**	**-2.5**	**-3.2**
Russia	3.5	5.2	5.5	5.0
Ukraine	-4.0	-0.7	-1.0	-1.2
Belarus	-6.6	-5.3	-6.7	-6.7
EE	**2.6**	**4.4**	**4.7**	**4.3**
Turkey	-5.8	-5.0	-5.7	-5.6
Austria	**2.0**	**2.8**	**2.7**	**2.6**
Germany	7.3	7.7	7.5	7.5
Euro area	**2.4**	**2.9**	**3.0**	**2.9**
USA	**-2.2**	**-2.6**	**-3.1**	**-2.7**

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

General budget balance (% of GDP)

Countries	2014	2015e	2016f	2017f
Poland	-3.2	-3.1	-3.2	-3.2
Hungary	-2.6	-2.3	-2.2	-2.4
Czech Rep.	-2.0	-1.5	-1.5	-1.7
Slovakia	-2.9	-2.5	-1.9	-0.9
Slovenia	-4.9	-3.1	-2.9	-2.5
CE	**-2.9**	**-2.6**	**-2.6**	**-2.5**
Croatia	-5.7	-5.0	-4.5	-4.1
Bulgaria	-3.8	-3.3	-2.5	-2.0
Romania	-1.4	-1.2	-3.0	-3.2
Serbia	-6.6	-3.7	-3.7	-3.0
Bosnia a. H.	-2.1	-2.5	-2.0	-1.0
Albania	-5.1	-4.0	-2.5	-1.5
Kosovo	-2.6	-2.3	-2.5	-2.5
SEE	**-3.1**	**-2.5**	**-3.2**	**-3.0**
Russia	-1.2	-3.5	-3.5	-2.0
Ukraine	-4.6	-4.0	-3.5	-2.5
Belarus	1.0	-1.0	0.0	0.0
EE	**-1.3**	**-3.4**	**-3.4**	**-2.0**
Turkey	-1.5	-1.5	-1.5	-1.5
Austria	**-2.7**	**-1.7**	**-1.9**	**-1.6**
Germany	0.3	0.5	0.5	0.5
Euro area	**-2.6**	**-2.0**	**-1.8**	**-1.5**
USA	**-2.8**	**-2.4**	**-2.2**	**-2.1**

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Public debt (% of GDP)

Countries	2014	2015e	2016f	2017f
Poland	50.4	51.9	52.9	52.9
Hungary	76.2	75.8	75.0	71.5
Czech Rep.	42.6	40.7	40.1	40.2
Slovakia	53.6	53.4	52.8	51.9
Slovenia	80.8	82.0	81.9	81.2
CE	**54.0**	**54.4**	**54.7**	**54.1**
Croatia	85.1	89.9	93.1	94.9
Bulgaria	27.1	28.5	29.5	30.0
Romania	39.9	38.9	39.7	40.4
Serbia	68.8	74.0	78.5	81.3
Bosnia a. H.	42.2	44.6	45.0	43.0
Albania	71.6	73.7	72.5	71.0
Kosovo	10.6	12.6	13.0	13.8
SEE	**48.5**	**49.7**	**51.2**	**52.0**
Russia	11.5	12.7	13.5	14.0
Ukraine	70.5	87.0	94.0	93.0
Belarus	34.1	36.0	37.0	37.0
EE	**16.1**	**18.3**	**19.5**	**19.9**
Turkey	35.0	34.0	32.0	33.0
Austria	**84.2**	**86.2**	**85.3**	**84.2**
Germany	74.9	71.4	68.5	65.6
Euro area	**92.1**	**91.8**	**90.8**	**89.2**
USA	**103.2**	**101.9**	**102.5**	**101.3**

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Gross foreign debt (% of GDP)

Countries	2014	2015e	2016f	2017f
Poland	71.1	70.3	71.2	71.2
Hungary	113.9	104.8	96.9	89.8
Czech Rep.	66.6	65.6	63.6	63.4
Slovakia	89.7	95.8	96.3	81.5
Slovenia	124.1	116.0	111.5	106.2
CE	**71.5**	**69.4**	**68.2**	**66.8**
Croatia	108.5	109.0	109.5	109.8
Bulgaria	94.7	92.3	90.9	85.0
Romania	63.2	59.3	57.8	56.1
Serbia	78.6	81.6	80.6	79.4
Bosnia a. H.	63.1	62.7	62.7	59.1
Albania	67.7	69.0	68.2	65.4
Kosovo	32.2	32.2	32.3	32.1
SEE	**75.5**	**73.4**	**72.0**	**69.6**
Russia	32.2	41.4	37.1	32.3
Ukraine	96.4	128.1	133.3	134.0
Belarus	57.8	61.6	67.5	63.3
EE	**37.2**	**48.0**	**44.5**	**39.7**
Turkey	50.3	60.2	62.6	58.2
Austria	**n.v.**	**n.v.**	**n.v.**	**n.v.**
Germany	n.v.	n.v.	n.v.	n.v.
Euro area	**119.1**	**122.8**	**n.v.**	**n.v.**
USA	**n.v.**	**n.v.**	**n.v.**	**n.v.**

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Exchange rate EUR/LCY (avg)

Countries	2014	2015e	2016f	2017f
Poland	4.19	4.18	4.22	4.13
Hungary	309	311	315	324
Czech Rep.	27.5	27.3	27.0	26.1
Slovakia	euro	euro	euro	euro
Slovenia	euro	euro	euro	euro
Croatia	7.63	7.62	7.65	7.66
Bulgaria	1.96	1.96	1.96	1.96
Romania	4.44	4.45	4.43	4.35
Serbia	117	121	123	125
Bosnia a. H.	1.96	1.96	1.96	1.96
Albania	140	140	140	140
Kosovo	euro	euro	euro	euro
Russia	51.0	68.5	67.0	71.2
Ukraine	15.9	24.2	26.0	31.2
Belarus	13597	17745	22008	27060
Turkey	2.90	3.04	3.07	3.32
Austria	**euro**	**euro**	**euro**	**euro**
Germany	euro	euro	euro	euro
Euro area	**euro**	**euro**	**euro**	**euro**
USA	**1.33**	**1.11**	**1.02**	**1.10**

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Ratings[1]

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-	Baa3	BBB+
Croatia	BB	Ba1	BB
Bulgaria	BB+	Baa2	BBB-
Romania	BBB-	Baa3	BBB-
Serbia	BB-	B1	B+
Bosnia a. H.	B	B3	NR
Albania	B	B1	NR
Kosovo	NR	NR	NR
Russia	BB+	Ba1	BBB-
Ukraine	B-	Caa3	CCC
Belarus	B-	Caa1	NR
Turkey	BB+	Baa3	BBB-
Austria	**AA+**	**Aaa**	**AA+**
Germany	AAA	Aaa	AAA
USA	AA+	Aaa	AAA

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

Exchange rate forecast

Countries vs EUR	16-Dec[1]	Mar-16	Jun-16	Dec-16
Poland	4.30	4.25	4.20	4.15
Hungary	317.20	310.0	315.0	320.0
Czech Rep.	27.03	27.0	27.0	27.0
Croatia	7.65	7.68	7.60	7.68
Romania	4.51	4.40	4.45	4.40
Serbia	122.60	123.0	122.0	125.0
Albania	138.11	141.0	140.0	139.0
vs USD				
Russia	70.4	70.0	66.0	63.0
Ukraine	23.58	24.00	25.00	28.00
Belarus	18310	21400	21850	23200
Turkey	2.96	3.05	3.00	3.10
EUR/USD	1.09	1.05	1.03	1.01

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

Key interest rate forecast

Countries	16-Dec[1]	Mar-16	Jun-16	Dec-16
Poland	1.50	1.50	1.50	1.50
Hungary	1.35	1.00	1.00	1.00
Czech R.	0.05	0.05	0.05	0.05
Romania	1.75	1.75	1.75	1.75
Russia	11.00	10.00	10.00	10.00
Turkey	7.50	9.50	9.50	9.50
Euro area	0.05	0.05	0.05	0.05
USA	0.50	0.75	1.00	1.75

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

3m money market rate forecast

Countries	16-Dec[1]	Mar-16	Jun-16	Dec-16
Poland	1.72	1.70	1.70	1.75
Hungary	1.35	1.00	1.05	1.05
Czech R.	0.29	0.30	0.30	0.30
Croatia	1.28	1.20	1.20	1.30
Romania	1.04	1.30	1.60	1.80
Russia	11.90	10.70	10.80	11.00
Turkey	11.70	12.10	11.60	10.60
Euro area	-0.13	-0.15	-0.15	-0.15
USA	0.53	0.80	1.00	1.80

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

2y LCY yield forecast

Countries	16-Dec[1]	Mar-16	Jun-16	Dec-16
Poland	1.86	1.8	1.9	2.2
Hungary*	2.37	1.7	1.7	1.9
Czech R.	-0.22	-0.3	-0.3	-0.2
Croatia	2.85	2.5	2.5	2.6
Romania*	1.51	1.6	1.8	2.2
Russia	10.69	10.0	10.0	9.5
Turkey	10.71	11.0	10.5	9.8
Austria	-0.24	-0.3	-0.3	-0.3
Germany	-0.32	-0.3	-0.3	-0.3
USA	1.05	1.2	1.4	2.0

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

5y LCY yield forecast

Countries	16-Dec[1]	Mar-16	Jun-16	Dec-16
Poland	2.54	2.2	2.4	2.8
Hungary	2.93	2.6	2.7	3.0
Czech R.	0.05	0.0	0.1	0.3
Croatia	3.29	3.3	3.3	3.4
Romania	2.52	2.6	2.7	3.2
Russia	10.26	10.1	10.3	9.8
Turkey	10.81	11.0	10.6	9.9
Austria	-0.02	0.1	0.2	0.4
Germany	-0.02	0.0	0.1	0.3
USA	1.63	1.9	2.1	2.5

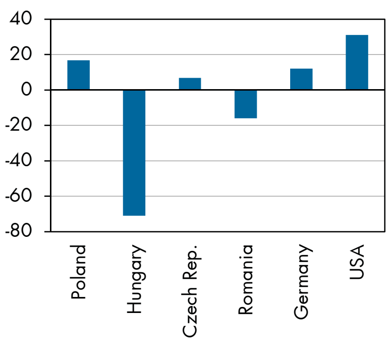
[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

10y LCY yield forecast

Countries	16-Dec[1]	Mar-16	Jun-16	Dec-16
Poland	3.13	3.3	3.4	3.5
Hungary	3.71	3.0	3.2	3.4
Czech R.	0.63	0.7	0.8	1.1
Croatia	4.12	4.2	4.3	4.3
Romania	3.86	3.7	3.9	4.1
Russia	10.00	10.3	10.5	10.0
Turkey	10.54	11.0	10.7	10.0
Austria	0.94	1.0	1.1	1.4
Germany	0.68	0.8	0.9	1.2
USA	2.29	2.6	2.8	3.1

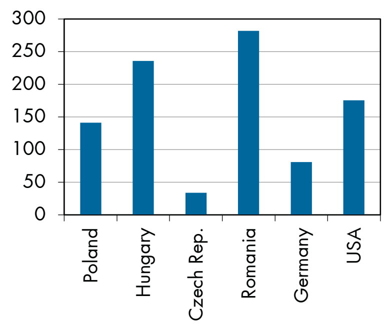
[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Expected 10y LCY yield change



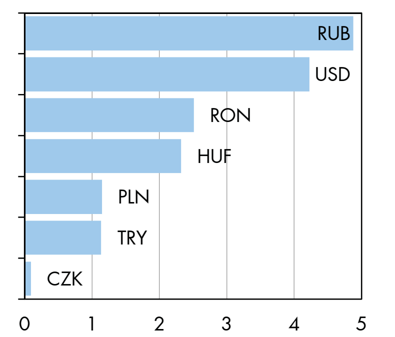
bp-change of 10y gov. bond yield in next 3 months
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Yield curve slope



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

LCY changes vs EUR (% qoq)[1]



[1] forecasts for 31 Mar-2016 in comparison to 16 Dec-2015
Source: Bloomberg

Stock market indicators

	Earnings growth		Price/earnings ratio	
	15e	16f	15e	16f
ATX	95.7%	8.8%	12.7	11.7
WIG 30	74.1%	-10.5%	10.7	11.9
BUX	n.a.	25.1%	14.2	11.3
PX*	14.2%	-3.6%	10.6	11.0
MICEX	11.1%	1.5%	5.9	5.9
BET**	-1.5%	14.0%	10.7	9.4
CROBEX10	-5.7%	12.2%	12.6	13.3
BIST Nat. 100	4.0%	19.2%	9.9	8.3

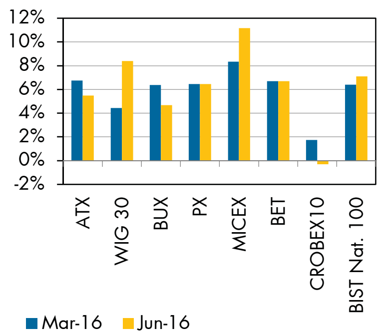
** Czech Rep. (PX): excl. Central European Media Enterprises, New World Resources and Erste Group*
*** Romania (BET) excl. Fondul Proprietatea*
Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

Stock market forecasts

	Index estimates			
	16-Dec[1]	Mar-16	Jun-16	Dec-16
ATX	2,389	2,550	2,520	2,550
WIG 30	2,011	2,100	2,180	2,270
BUX	23,693	25,200	24,800	25,200
PX	930	990	990	1,010
MICEX	1,754	1,900	1,950	2,050
BET	6,795	7,250	7,250	7,400
CROBEX10	983	1,000	980	1,000
BIST Nat. 100	72,832	77,500	78,000	82,000

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

Expected index performance



Source: RBI/Raiffeisen RESEARCH

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

Raiffeisen RESEARCH

CEE portfolio catches up in Q4

- **Russia unable to avoid impact of oil price slump**
- **Extreme swings in prices in Turkey**
- **Pronounced overweighting on equities generates positive contribution**

Sum of last quarter[1]

RBI portfolio (in EUR)	-1.76%
Benchmark (in EUR)	-1.83%
RBI outperformance (in EUR)	0.06 pp
by weighting of equities vs bonds	0.10 pp
regional equity weightings	0.10 pp
weighting of EB vs LCY bonds	0.00 pp
country weightings of LCY bonds	-0.16 pp
country weightings of EB EUR	0.00 pp
country weightings of EB USD	0.00 pp
joint effects / duration	0.01 pp

1 18 September 2015 - 16 December 2015
EB...Eurobonds
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Period 1: 18 Sep 2015 - 29 Okt 2015

RBI portfolio (in EUR)	2.18%
Benchmark (in EUR)	2.50%
RBI outperformance (in EUR)	-0.31 pp
by weighting of equities vs bonds	0.07 pp
regional equity weightings	-0.22 pp
weighting of EB vs LCY bonds	0.00 pp
country weightings of LCY bonds	-0.16 pp
country weightings of EB EUR	0.00 pp
country weightings of EB USD	0.00 pp
joint effects / duration	0.00 pp

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

Period 2: 29 Okt 2015 - 26 Nov 2015

RBI portfolio (in EUR)	1.69%
Benchmark (in EUR)	1.46%
RBI outperformance (in EUR)	0.23 pp
by weighting of equities vs bonds	0.03 pp
regional equity weightings	0.23 pp
weighting of EB vs LCY bonds	0.00 pp
country weightings of LCY bonds	-0.05 pp
country weightings of EB EUR	0.00 pp
country weightings of EB USD	0.00 pp
joint effects / duration	0.02 pp

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

Period 3: 26 Nov 2015 - 16 Dez 2015

RBI portfolio (in EUR)	-5.46%
Benchmark (in EUR)	-5.59%
RBI outperformance (in EUR)	0.13 pp
by weighting of equities vs bonds	0.00 pp
regional equity weightings	0.08 pp
weighting of EB vs LCY bonds	0.00 pp
country weightings of LCY bonds	0.05 pp
country weightings of EB EUR	0.00 pp
country weightings of EB USD	0.00 pp
joint effects / duration	0.00 pp

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

Following a correction on the equity markets, CEE stocks were back to attractive looking valuation levels at the start of the first period. Furthermore, bond markets looked overvalued. Both of these points suggested an overweight on the equity markets. With this positioning, the **CEE portfolio** achieved a performance which was 10 basis points (bp) higher than the benchmark.

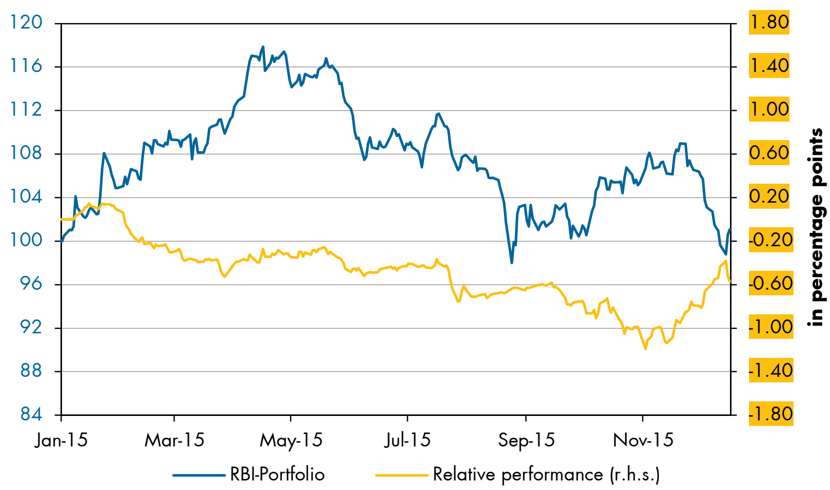
In the **equity segment**, we preferred the Czech and Hungarian stock markets in the first two periods, due to good economic performance and solid prospects for earnings growth. Furthermore, the Russian leading index should profit from the stabilisation in the oil price which we anticipated. This was contrasted with an underweighting of Turkey during the first period, which was also followed by Poland in periods 2 and 3. Contrary to our expectations, the presumed political uncertainty in Turkey did not impact the equity market. Indeed, the stock market was able to profit from the sustained low oil prices. In Poland, however, the uncertainty about fiscal policy weighed on the equity markets, as expected. All in all, the regional weighting generated 10bp for all the periods.

In the **bond segment,** LCY bonds from Hungary and Poland were overweighted, due to the more attractive yield levels compared to 10-year Bunds and the anticipated stable exchange rate outlook. The very high volatility of the lira resulted in underperformance of 16bp, due to an unfavourable positioning in Turkey.

By contrast, the CEE portfolio improved by 6bp versus the benchmark in the review period.

Financial analyst: Stefan Theußl, RBI Vienna

Performance 2015



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

CEE portfolio

	2012	2013	2014	ytd
Benchmark	21.90%	-2.54%	-8.11%	1.67%
Portfolio	21.07%	-2.41%	-8.23%	1.10%
Relative Performance	-0.83 pp	0.12 pp	-0.12 pp	-0.57 pp

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Equities expected to recover

- **Attractive price levels for equities**
- **ECB's expansive monetary policy should be positive for CEE**
- **Interest rate turnaround in the USA may weigh on the bond segment**

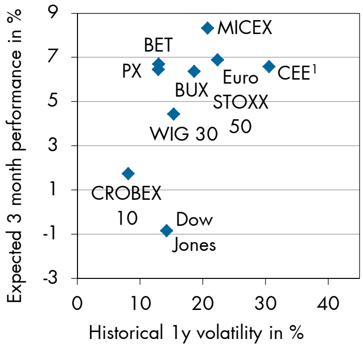
For the CE countries and most of the SEE countries as well, **we expect 2016 to be a positive year** (average GDP growth forecast of 3%). EE countries may also be able to emerge from the recession, provided that the Russia-Ukraine conflict does not flare up again. Along with this promising macroeconomic outlook, the expansive monetary policy of the ECB and some local central banks should provide a **solid foundation for price developments in CEE assets which are positive for investors**.

In terms of the risk-return profile, we foresee a better situation for the equity segment in the first quarter. We project increases for the most important leading indices between 6% and 8% in LCY terms, assuming a sustained stabilisation in the price of oil and moderate earnings growth. On the other hand, bonds will likely come under mounting pressure due to the interest rate turnaround in the USA. Consequently, we project mild rises in yields on 10-year government bonds over a 12-month horizon, **limiting our price expectations for the bond segment.** Nonetheless, caution is called for as volatility will remain elevated in both segments, as well as in exchange rates.

We believe that a **modest overweighting of equities by 3 percentage points (pp) versus bonds (-3pp)** is appropriate. Despite the rate hike by the US Fed, monetary policy at the global level remains mainly expansive. This means that conditions are good for higher asset prices over a one-quarter horizon. Nevertheless, two risk factors should not be disregarded: sustained low oil prices would be negative for markets which are dependent on these; and geopolitical conflicts in the Middle East may have significant global ramifications (e.g. escalation of the already tense Turkish/Russian situation).

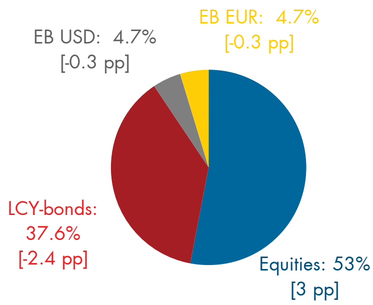
Financial analyst: Stefan Theußl, RBI Vienna

Risk-return (%)



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

CEE portfolio weightings Q1 2016



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

Historical volatility & performance (%)

	Equities[1]						Bonds					
	Volatility[2]		Performance ytd		Performance 5y[3]		Volatility[2]		Performance ytd		Performance 5y[3]	
Countries	EUR	LCY	EUR	LCY	EUR	LCY	EUR	LCY	EUR	LCY	EUR	LCY
Czech Republic	16.6	16.2	-16.1	-18.2	-8.7	-7.3	2.2	1.4	4.6	2.0	4.5	6.0
Hungary	19.2	17.8	46.5	47.1	-4.5	-1.7	5.7	2.0	2.8	3.3	6.4	9.5
Poland	19.6	17.1	-21.4	-21.4	-8.7	-7.3	7.0	3.9	0.5	0.5	5.0	6.6
Romania	16.1	15.7	5.6	6.2	8.3	9.4	2.4	0.2	0.2	0.8	1.9	2.9
Russia	35.7	21.2	13.9	17.0	-11.3	-2.3	26.7	5.7	22.6	30.1	-6.4	6.4
Turkey	37.3	25.4	-25.6	-14.8	-7.0	2.3	20.8	6.4	-14.7	-2.4	-3.2	6.5
Croatia	11.7	10.9	-1.0	-1.1	-7.0	-6.3	3.4	4.2	0.1	-0.1	6.0	6.7
CEE	23.1	-	1.7	-			5.5	-	2.3	-		

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

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

Raiffeisen RESEARCH

Defensive positioning is preferred

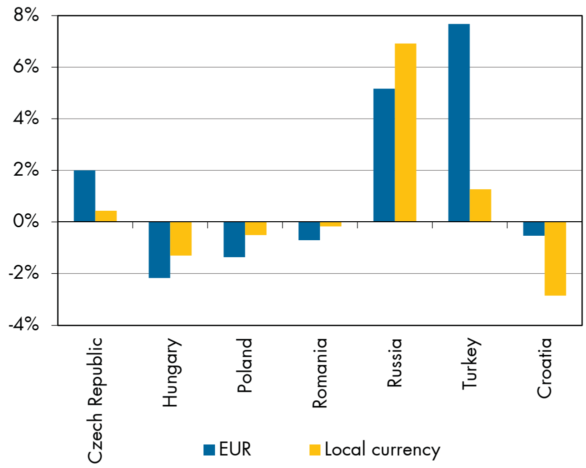
- **Russia: Currency expected to stabilise over the medium term**
- **Rate cuts in Hungary as an opportunity**
- **Turkey: Overshadowed by numerous downside risks**

Portfolio weightings: bonds*

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

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

Historical relative performance*



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

Movements on the bond markets in the CEE region were driven by the interaction of external factors such as expansion of the ECB's QE programme and local political factors. As a result of the **rate hike in the USA** government bonds from the CEE region may come under pressure at least over the short run and the volatility of their performance may tend to rise. Accordingly, we take a rather defensive positioning in the CEE bond segment and focus on local developments. We see the current decline in the price of oil to levels below 40 USD/bbl as a short-term exaggeration and thus expect to see stabilisation over the medium term. Consequently, the rouble should stabilise as well versus the euro and move sideways around the level of 75.00 EUR/RUB. This and the attractive yields on Russian bonds (currently 9.9%) prompt us to overweight Russia by 1 percentage point (pp). In **Hungary**, we see **another rate cut** by the central bank as possible, and moreover the current monetary policy measures should continue to stabilise bond prices and offset possible negative impacts from a Fed rate hike. For Romanian bonds, we expect stable, attractive yield levels in the first quarter, and we also project stable currency developments, prompting us to overweight Romanian and Hungarian bonds by 1pp each. While the election results in Turkey may lead to some stability, the geopolitical crises such as the conflict with Russia and the military involvement in Syria, will remain as factors over the medium term. Accordingly, we still see **downside risks** for the Turkish lira, which will probably be further exacerbated by a possible rate hike in the USA. Hence, we underweight bonds in Turkey by 3pp, resulting in a balanced risk-return profile for our portfolio on the whole.

Financial analyst: Stefan Memmer, RBI Vienna

Expected bond market performance (%)

	3m		6m		9m		12m	
Countries	**EUR**	**LCY**	**EUR**	**LCY**	**EUR**	**LCY**	**EUR**	**LCY**
Czech Republic	-1.0	-1.1	-1.3	-1.4	-1.7	-1.8	-3.0	-3.1
Hungary	7.8	5.9	5.8	5.6	6.3	6.1	5.1	6.5
Poland	-0.4	-1.5	0.7	-1.5	1.6	-0.7	2.7	-0.7
Romania	4.2	2.0	2.7	1.6	4.3	2.0	4.7	2.4
Russia	2.1	-1.6	9.8	-1.0	22.9	1.9	24.5	6.7
Turkey	-1.4	-0.7	6.3	3.4	15.0	8.2	14.0	12.3

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

Focus on the economy

- **Romania, the Czech Republic, and Hungary have solid economic growth prospects**
- **Russia should emerge from recession – oil price as the main risk factor**
- **Poland and Turkey marked by political uncertainty**

For the start of 2016, we mainly favour **markets which show strong economic dynamics**. This applies in particular to the Romanian, Czech, and Hungarian equity markets. Furthermore, these markets stand out in terms of their in 2016 expected earnings growth of between 14% and 25% (Romania, Hungary) and the relatively low volatility (Romania, the Czech Republic). With an eye to the risk/return profile, Russia also offers above-average price potential with projected performance of 8.3% in LCY terms for the next quarter, but with corresponding volatility. **Consequently, we overweight these markets by 1pp each.** Even taking into account our outlook for exchange rate developments, these markets should do relatively better in EUR terms. There are downside risks such as a further decline in the oil price, or weaker economic growth than we project.

We expect to see below-average performance by the **Polish equity market (-2pp).** The uncertainties in relation to the new government's fiscal policy and the planned levy on banks and insurance companies will probably continue to have a negative impact on the WIG30. The Turkish equity market is mainly burdened on the risk side. Not only is the country strongly exposed to the crises in the Middle East, it is now also embroiled in an economic conflict with Russia as well. The turnaround in interest rates in the USA should also lead to elevated volatility for the currency. Accordingly, we **underweight Turkey by 2pp**, despite the beneficial effects of the low oil price.

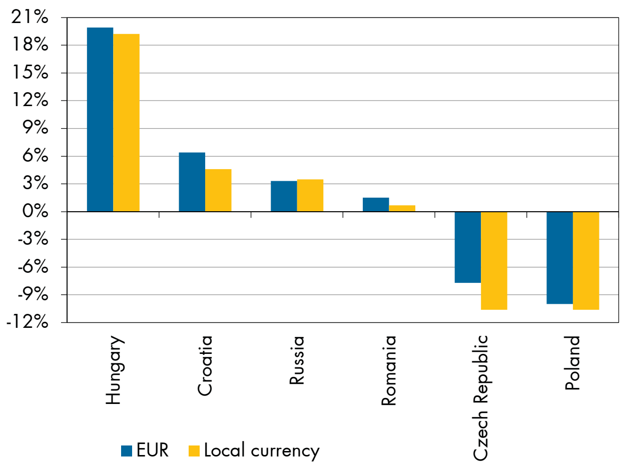
Financial analyst: Stefan Theußl, RBI Vienna

Portfolio weightings: stocks*

	Portfolio	Benchmark	Difference
Czech Republic	9.0%	8.0%	1.0%
Hungary	8.0%	7.0%	1.0%
Poland	23.0%	25.0%	-2.0%
Russia	36.0%	35.0%	1.0%
Turkey	23.0%	25.0%	-2.0%
Croatia	0.0%	0.0%	0.0%
Romania	1.0%	0.0%	1.0%

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

Historical relative performance*



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

Expected stock market performance (%)

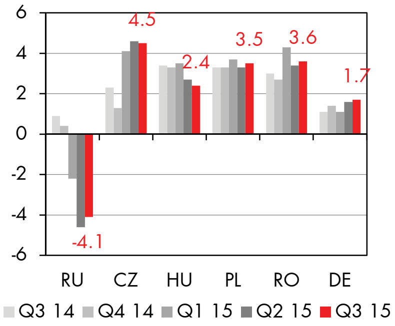
	3m		6m		9m		12m	
Countries	**EUR**	**LCY**	**EUR**	**LCY**	**EUR**	**LCY**	**EUR**	**LCY**
Czech Republic	6.6	6.5	6.6	6.5	4.4	4.3	8.7	8.6
Hungary	8.8	6.4	5.4	4.7	2.0	1.3	5.4	6.4
Poland	5.6	4.4	11.0	8.4	10.4	7.9	16.9	12.9
Romania	9.4	6.7	8.1	6.7	7.1	4.5	11.6	8.9
Russia	13.6	8.3	26.1	11.2	45.0	14.0	41.6	16.9
Croatia	1.2	1.7	0.2	-0.3	-3.5	-3.4	1.2	1.7
Turkey	7.8	6.4	12.3	7.1	15.0	5.7	16.6	12.6

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

Outlook 2016: Robust CE/SEE growth, oil rebound key for Russia

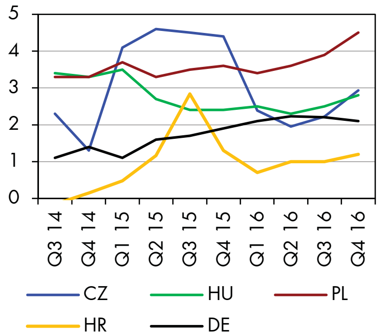
- **Robust growth in CE/SEE, which should also lift wage pressures and core inflation; Russia recovery delayed on weak oil**
- **Additional upward effect on inflation from the projected rebound in oil prices from H2**
- **In Poland, implementation of lavish election promises will push the deficit higher, but also spur growth**
- **EU sanctions on Russia likely to stay in place, but intra-EU resistance may trigger some first easing signs in H2**

CEE GDP growth (% yoy)



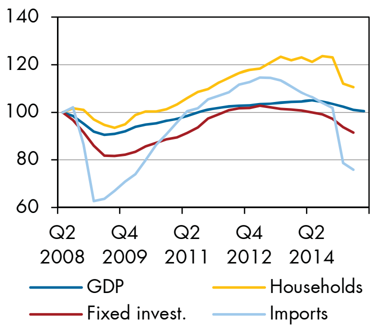
Source: Bloomberg, RBI/Raiffeisen RESEARCH

GDP growth outlook (% yoy)



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Russia consumers retracing



Russian GDP indices, seasonally adjusted
Source: Reuters, RBI/Raiffeisen RESEARCH

CE/SEE to show decent growth, Russia to end recession if oil picks up. Looking into 2016, the sharp east-west division in growth rates in the region will be still visible, but will fade somewhat compared to 2015. Central Europe and South East Europe will perform again well, while Eastern Europe may finally bottom out, followed by shallow growth or stagnation. CE/SEE economies are supported both by euro area dynamics and domestic growth drivers such as still lax monetary conditions. Headline GDP growth rates should remain around 3% on average for CE, while SEE is improving towards a similar level coming from lower growth in 2015. Looking at CE in more detail, we expect the extraordinarily strong growth of the Czech Republic to come down to more moderate levels, while Poland could gain from the implementation of costly fiscal promises by the new government. Hungary may slow down a bit as one-off effects fade, while Slovakia will show above-average performance. As said, the Western Balkan countries should improve compared to 2015, with only Croatia still lagging with slow growth of 1% yoy. Once again, Romania is one of our regional powerhouses and is expected to even increase growth to 4%.

For Russia, oil price dynamics are the key. In our baseline scenario, we expect a level of USD 56/bbl Brent in 2016 similar to 2015, but with a positive dynamics over the year starting from very low levels. Thus, our main scenario for Russia is economic stagnation in 2016, with upside risks in the second half of the year. Needless to say, if the oil price does not pick up as strongly or as fast as projected, Russia will see a second year of recession. Our oil price analyst attaches a 30% downside risk to his forecast. Economically closely integrated Belarus should see similar dynamics as Russia. The economy of Ukraine has already bottomed out in 2015 after a steep fall, but challenges are manifold and the situation is still shaky in politics and the economy. Thus, we see only low growth of 1-2% from a very depressed level. Last but not least, we are more negative on Turkish growth given the continued challenging international environment and project growth of slightly below 3% in 2016, after a surprisingly strong 2015 with 3.5%.

In CE/SEE, inflation will finally rebound on somewhat higher core rates and an expected energy price rise in H2; Russia and Turkey to proceed slowly with disinflation. Inflation rates in CE have been very low in 2015, sometimes even in negative territory. In this regard, the dynamics of inflation rates was not too different from the neighbouring euro area. Moreover, inflation has fallen more extensively than expected and seems also stickier than anticipated. Partially this can be explained by the negative contribution of fallen energy prices, given the drastic fall in oil price since summer 2014. In addition, core inflation rates have been low (Czech Republic, Hungary) or even extremely low (Poland, Slovakia) in CE countries, showing some slack in the economies after the euro crisis. We expect both to change during 2016. On the backdrop of another year of robust growth, unemployment rates will decrease further, increasing pressure on wages and somewhat lifting the core inflation rate. While currently still a drag on inflation, we also see the energy component turning around. Based on our oil price forecast of over USD 60/bbl in H2 2016 (+50% from current levels), inflation rates in CEE should easily rise to between 1-2% and in the case of Hungary surpass this level moving towards 3% by year end. That said, the reflation in CE hinges crucially on the timing of the energy price development. Inflation rates in Romania show a very specific pattern, given the VAT cuts in 2015. There, the negative inflation rates should return to positive territory of 1.5-2% in 2016. Looking at annual averages, the projected 2016 inflation rates are still below the 5-year historical average. Only in 2017 do we expect them to move closer to a more "normal" level. This outlook also suggests that CE central banks will only slowly reverse their expansionary monetary policy, with additional unconventional or even conventional monetary easing measures still not off the cards in H1 2016, before inflation rates begin to pick up sufficiently.

In Russia, inflation should fall from the 15% seen in late 2015 towards a 9-10% level in early 2016 (this would be delayed if oil prices and the rouble continue to fall though). We expect Russian inflation to remain elevated for most of 2016, well above the inflation target for 2016 of 6.5% by the CBR, given the persistently high inflation expectations. However, if the oil price performs as expected, we should see some pass-through of a stronger rouble, reducing the inflationary pressure. The recent row between Russia and Turkey and the sanctions on tourism and foodstuffs will have an upward effect on prices in Russia (less vacation possibilities outside Russia, higher food prices), while food prices in Turkey should fall. As Turkey increases its minimum wage by 30% in 2016, the chances of fast disinflation are low, and we expect the CPI in a similar range as in 2015, at 7-8% yoy. Finally, the (almost) hyperinflation in Ukraine of 45% yoy should be reduced to low double-digit levels in early 2016, as the inflation increase in March 2015 is removed from the data.

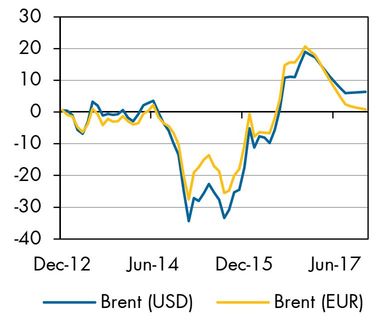
New government in Poland – Budget risks, but also growth effects from fiscal stimulus. The PiS party, now in complete control, made large promises ahead of elections (e.g. introducing a child benefit of PLN 500 monthly). As the government currently looks strongly determined to implement the promises, we see a significant upside risks to the budget deficit, which could turn out in excess of the 3% of GDP limit – bringing Poland into conflict with the EU deficit criteria again. On the other hand, the fiscal stimulus should be positive for growth. Moreover, with the several monetary policy council members being replaced, Poland could even implement a more expansionary monetary policy. However, our base scenario is still the maintenance of the level of 1.5% key rate.

Our EU-Russia sanction scenario is without substantial changes this year, but some first signs of sanctions easing are possible in H2. The EU tied the removal of sectoral sanctions to successful implementation of the Minsk-II agreement to resolve the conflict in Ukraine, which seems impossible on a 6-12 month horizon. As long as the strong linkage to Minsk-II (backed by German Chancellor Merkel) is maintained, we do not expect a removal of substantial parts of the sanctions. However, the pressure on "hardliners" against Russia is rising from inside the EU – thus we would not exclude some compromise and modification of the sanctions in H2.

For Russia, in addition to oil, foreign politics remains a variable which is very hard to predict. The surprising move for military intervention in Syria and the sudden deterioration in Russian-Turkish political and economic relations highlight again that Moscow's foreign policy two years after the Crimea crisis is hard to predict, which keeps the political risk elevated. Moreover, Russian economic sanctions on Turkey as well as the sanction regimes between Russia and the West show that these policies are not without (negative) repercussions on the economic sphere.

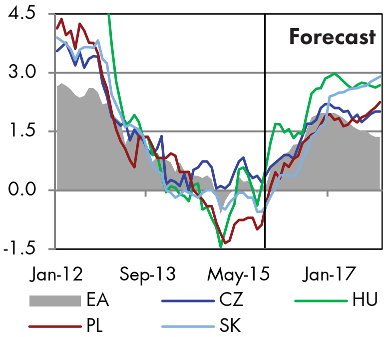
Financial analyst: Andreas Schwabe, CFA, RBI Vienna

Positive oil price impact*



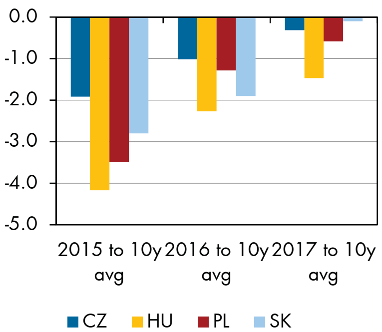
** yearly logarithmic changes of oil price*
Source: Reuters, RBI/Raiffeisen RESEARCH

Inflation to rebound in 2016/2017



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Gap to 10y inflation avg narrowing

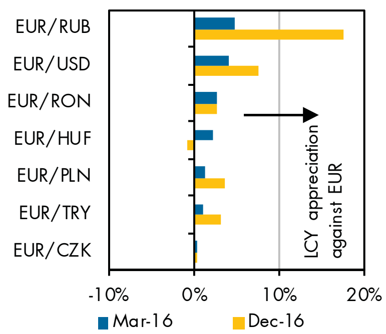


Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Politics as a short-term burden on PLN, oil price to support RUB

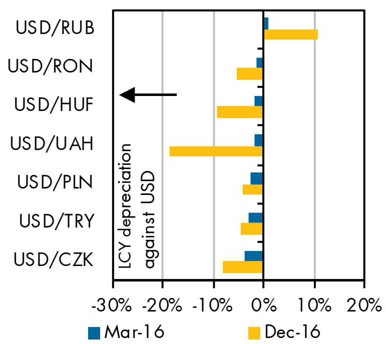
- **Recently seen spikes indicate buying opportunities for some CEE FX rates**
- **PLN with political risks counterbalancing the strong economic outlook**
- **Elevated volatility in EE region to remain with oil price as a major factor**
- **RUB to profit from the expected oil price increase**

Projections LCY vs EUR



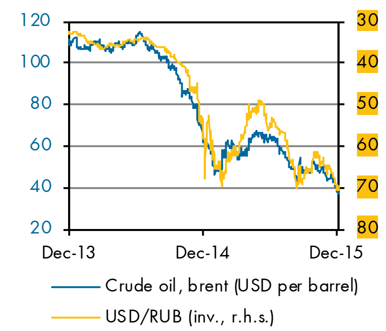
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Projections LCY vs USD



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Rouble and oil price moving together



Crude oil, brend 5y high: 128.4; 5 y low 36.33
USD/RUB 5y high: 79.17; 5y low: 27.15
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Throughout 2015, CEE exchange rate developments varied significantly between the different regions. Whereas the **EE region witnessed high volatility and strong depreciation** both against USD as well as EUR, the CE and SEE regions were able to show significantly more stability and overall less depreciation. Nevertheless, this deviation between the regions proved less valid during the fourth quarter 2015. In our previous strategy, for the fourth quarter 2015 we had buy recommendations for TRY and RUB on a quarterly basis. Whereas our RUB view did not materialise, also due to a renewed drop in the oil price, our TRY buy recommendation worked out. The sell recommendation for UAH worked out, but here the inability to exploit the idea by investors was obvious.

Given the recent market hiccups that were visible in all CEE regions in late 2015, our call for Q1 2016 has turned somewhat more bullish than originally planned. On a quarterly basis, we would see buying opportunities against the euro for PLN (at levels above EUR/PLN 4.35), HUF (at levels above EUR/HUF 317), and RON (at levels above EUR/RON 4.50). This hinges on our **projection of market calming in Q1 after the disappointing ECB decision and the start of the US Fed rate hike**. PLN in particular could witness elevated volatility in Q1, given the political changes and the reshuffling of the monetary council. The supportive fundamental situation of Poland should, however, counterbalance political issues, especially in H2 2016. The Hungarian forint may profit from an expected rating upgrade back into investment grade in Q1, but then again additional unconventional central bank actions or even interest rate cuts could dampen the positive forint effect. Additionally, we have a buy recommendation for RUB against EUR again, but this is only due to the impact of USD/EUR as our USD/RUB outlook indicates a mere sideways movement for Q1.

On a 12-month horizon we have a buy recommendation for PLN against EUR. The underlying assumption is that investors will digest the political changes and start pricing out the current excessive fears of political influence on the monetary council, budget deficit worries, and other unconventional political measures. We would not estimate the political uncertainty to overshadow the overall supportive economic development. Nevertheless, for PLN the risk is clearly on the political side that could pop up from time to time. The second **buy recommendation over a one-year time horizon is for RUB, both against EUR and USD.** The reasoning behind this recommendation lies in our assumption of a rebound in the oil price. Despite a probable decline in the current very close correlation between the oil price and the rouble, a rise in the oil price would still give RUB enough support in our view. Nevertheless, given the high degree of RUB volatility and the projection relying almost entirely on the oil price outlook, we would highlight the risk to this recommendation.
Given our appreciation projection for USD against EUR over a 12-month horizon, all CEE exchange rates except RUB have a sell recommendation against the US dollar.

Financial analyst: Wolfgang Ernst, RBI Vienna

Fed-ECB balance of risks rather supportive for CE/SEE markets

- **Due to political/fiscal uncertainties, Poland led losses in CE/SEE following disappointing ECB measures**
- **However, given dovish Fed liftoff we remain short-term constructive on CE/SEE local debt with HGBs to outperform**
- **In high-yielders, we continue preferring especially short-dated bonds in Russia over Turkey as a relative play…**
- **…before TURKGBs should regain attractiveness over longer term on risk premium compression**

It was mainly the disappointment following the ECB rate-setting meeting and the related core market moves in early December that triggered **spread widening and bearish steepening of the CE/SEE** local currency (LCY) yield curves (YC). Whilst Poland underperformed in our CE/SEE universe due to political/fiscal uncertainties, the two high-yielders Russia and Turkey witnessed the highest losses compared to the early-November levels when we published our latest "CEE Debt Market Strategy". The underperformance in Russia was driven exclusively by the massive rouble depreciation, while the attractive carry compensated for the rise in yields. October's yield compression in Turkey, by contrast, was largely reversed in November and December on rising (geo)political and Fed tail risks, which was in line with our call to **prefer Russia over Turkey on a relative basis**. We continue to see juice in this call going into H1 2016 since TURKGBs should face headwinds in terms of monetary tightening (in line with further Fed hikes and the normalisation of the monetary policy toolkit) and (geo)political risks (including plans of the AKP to set up a presidential system). Should inflation finally moderate and TRY depreciation come to a halt, the elevated risk premium at the front-end TURKGBs should be squeezed out as 2016 progresses, resulting in normalisation of the Turkish yield curve. The Russian OFZ market should, by contrast, benefit from resumed rate cuts in Q1 2016 with our call based on a stabilising RUB FX rate as a result of gradually recovering oil prices. **The expected currency-driven outperformance of Russian OFZs is at elevated risks** though (especially versus EUR where our strong EUR/USD call is also at play), given our bullish oil market and rouble assumptions respectively amidst an unsettled external backdrop (Fed rate trajectory/(geo)politics).

Coming back to CE/SEE, **Poland currently faces a less supportive local story compared to Hungary** (and Romania). Whilst there are fears that the new conservative government in Poland could lose grip over fiscal and monetary prudence, Hungary is currently benefitting from improving sentiment on HUF assets, especially in light of the expected return to the investment grade club in H1 2016. Among the other CE/SEE low-yielders, **we also prefer ROMGBs as the central bank is likely to remain accommodative** in the short run and fiscal easing should have limited impact on bond supply. Longer-dated government securities have also a certain appeal to us since the RON YC is still fairly steep compared to CE peers. Apart from the substantially improved external vulnerability metrics of all **CE/SEE, their relative attractiveness versus the euro area periphery should increase** going forward.

Against all of this, CE/SEE government bond markets should remain on a solid footing in the short term and recommend buying dips, once monetary policy tightening in the US is sufficiently reflected in prices. In Hungary / Poland, local central banks should continue/start to incentivize government financing patriotism which represents an additional anchor for LCY YCs. In the longer term, however, the expected reflationary rise in longer-term core market yields should set in motion the cyclical normalisation in CE/SEE pendants as well.

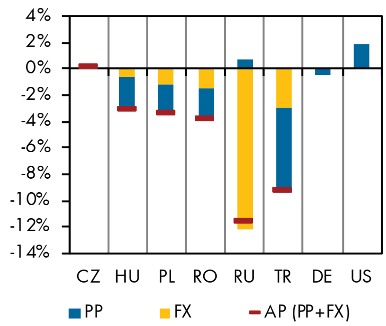
Financial analyst: Stephan Imre, RBI Vienna

Market strategy (until Mar-16)*

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

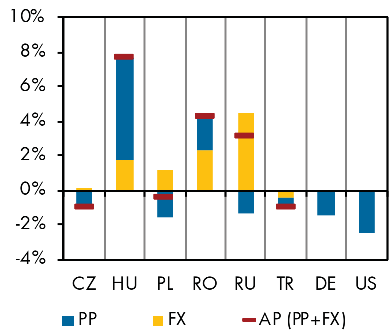
**LCY bonds: based on absolute performance in LCY*
*HU: 3y, not 2y tenor; previous recomm. (as of 4 Nov. 2015) in brackets; **FX** vs. EUR*
B: Buy; H: Hold; S: Sell
Source: RBI/Raiffeisen RESEARCH

Historical performance 10y LCY bond*



** between 4 Nov 2015 and 17 Dec 2015*
FX: currency performance (chg LCY/EUR)
PP: bond performance (price chg + carry)
AP: absolute performance (PP + FX)
DE and US: Only price performance (PP)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Expected perf. 10y LCY bond -> Mar-16

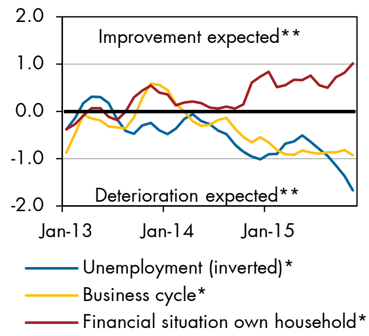


** between 17 Dec 2015 and 31 Mar 2016*
FX: currency performance (chg LCY/EUR)
PP: bond performance (price chg + carry)
AP: absolute performance (PP + FX)
DE and US: Only price performance (PP)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Economy slowly gaining pace

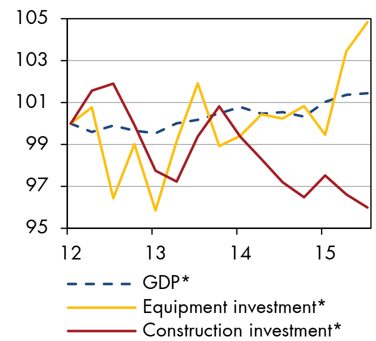
- **Moderate economic revival that started in 2015 should continue**
- **Equipment investment has turned around**
- **Private consumption expected to benefit from special effects in 2016**
- **Inflation mirrors oil price developments**

Pessimistic consumers



*Assessment of consumers; deviation from long term average (0)
**in the next 12 months
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Equipment investment is on the rise



*real, indexed, Q1 2012=100
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

After a long slow period, a **modest recovery began to emerge in the Austrian economy** in 2015. Consequently, real GDP expanded at a rate of 0.2% qoq in the first quarter and by 0.3% qoq in both the second and the third quarter. It also appears that investment activity reached a turning point. However, this is due almost exclusively to developments in equipment investment, while construction investment continued to fall. Private consumption also remains weak and essentially stagnated in the third quarter (+0.1% qoq). Although gains were registered for real exports (goods and services) during the year (Q3: +1.5% qoq), this export growth was accompanied by higher imports, and consequently external trade only made a small contribution to GDP growth.

Leading indicators such as the purchasing managers' index for the manufacturing sector (November: 51.4) and the European Commission's economic sentiment indicator (November: 98.2) point to a **continuation of the modest economic recovery**. By contrast, consumer confidence remained very weak, mainly due to consumers´ pessimistic assessment of future labour market developments.

The assumption of a further acceleration in the recovery is supported by various factors. For instance, significant momentum is expected to come from the **tax reform** which enters into effect from January 2016. Part of the additional disposable income will probably be used to boost the saving rate, which has declined sharply in recent years from 12.1% (2007) to 7.8% (2014). Nevertheless, it is still assumed that private consumption will break out of the long period of stagnation in 2016 and become a decisive factor behind economic developments. This will be supported by the foreseeable increase in transfer payments to **asylum seekers**. Additional public employees as well as government expenditures for accommodating refugees increase public consumption and consequently stimulate the economy as well. The rebound in **investment activity** which has already started should continue in the quarters ahead. Even though capacity utilisation remains below the long-term average, and thus there are no signs of a surge in expansion investments in the immediate future, internal and exter-

Key economic figures and forecasts

	2014	2015e	2016f	2017f
Real GDP (% yoy)	0.4	0.9	1.8	1.5
Trade balance (goods and services, EUR bn)	12.4	13.4	13.3	13.6
Current account balance (% of GDP)	2.0	2.8	2.7	2.6
General budget balance (% of GDP)	-2.7	-1.7	-1.9	-1.6
Public debt (% of GDP)	84.2	86.2	85.3	84.2
Unemployment rate (avg, %, EU definition)	5.6	5.7	6.4	6.7
Employment (% yoy)	0.6	0.7	0.9	1.0
Consumer prices (avg, % yoy)	1.5	0.8	1.6	2.0
Real wages (% yoy)	0.9	1.3	0.3	0.2
Unit labour costs (% yoy)	2.3	1.9	1.0	1.7

Source: Statistics Austria, Thomson Reuters, RBI/Raiffeisen RESEARCH nal financing conditions are favourable, which fosters the implementation of necessary replacement investments. This and the rising external demand should push gross fixed capital formation higher. While construction investment will probably continue to be a negative factor, increasing activity is also expected in this area as the year 2016 progresses. A mild upturn was seen in exports in recent months. For instance, nominal **exports of goods** increased by 2.5% in the period January–September, compared to the same period of the previous year. Higher exports to the US, Switzerland, the UK as well as to Poland and the Czech Republic were contrasted with declines in exports to Russia. Due to rising equipment investment, however, an increase was also registered in goods imports, even though this was smaller (January–September: +1.5% yoy). Exports should continue to gain pace in the quarters ahead. At the same time, this also holds true for imports due to our expectation of a recovery in domestic demand, and consequently net exports are not expected to make a tangible contribution to GDP growth over the forecast horizon. Thus, the anticipated continuation of the **economic recovery should be borne by domestic demand**. This scenario points to real GDP growth rates of 0.9% (2015), 1.8% (2016) and 1.5% (2017). While this does mean that the growth differential compared to the euro area will narrow in 2016 and 2017, the economic recovery in Austria will still be below average (compared to previous recoveries).

The situation on the **labour market** is likely to remain tense over the entire forecast horizon, and there are two main reasons for this. First, in light of the ongoing increase of labour supply growth, the anticipated economic growth is too low to generate an adequately high level of employment growth to noticeably reduce the unemployment rate. And second, it is assumed that initially a larger part of the working-age asylum seekers will not be able to find employment, which consequently increases the labour supply as well as the unemployment rate.

In line with our expectation of a modest increase in the price of oil, **inflation (HICP)** should rise from an estimated 0.8% in 2015 to 1.6% (2016) and 2.0% (2017), and thus remain above the euro area inflation rate (2016: 1.4%; 2017: 1.6%).

Financial analyst: Matthias Reith, RBI Vienna

GDP: Value added by sector

Change (% yoy, in real terms)	2014	2015e	2016f	2017f
Agriculture & forestry	4.1	-5.0	0.0	0.0
Prod. of goods/mining	1.1	1.2	2.2	2.0
Energy/water supply	2.6	2.5	1.5	1.3
Construction	-2.0	-0.1	1.9	1.4
Wholesale and retail trade	-0.5	1.5	2.1	2.0
Transportation	-1.1	-0.5	1.7	1.5
Accom. & restaurant trade	0.6	0.9	1.4	1.4
Information and communication	-2.7	-1.9	2.4	2.2
Credit and insurance	-1.5	0.8	1.1	1.0
Property & business services	2.8	2.3	1.8	1.7
Other economic services	1.2	-0.5	3.6	2.5
Public sector	-0.2	0.2	0.8	0.7
Healthcare, social services	-0.2	1.5	1.6	1.5
Other services	0.4	1.2	1.5	1.4
Gross domestic product	0.4	0.9	1.8	1.5

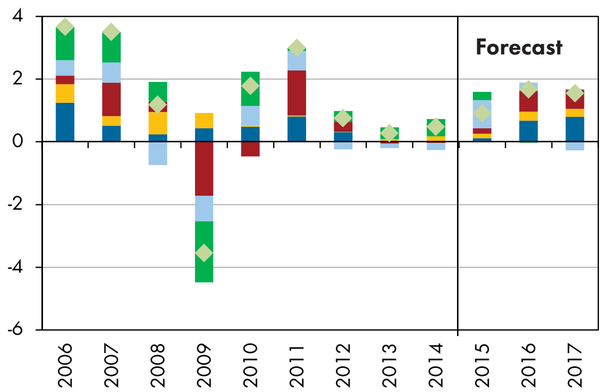
Source: Statistics Austria, RBI/Raiffeisen RESEARCH

GDP: Expenditure composition

Change (% yoy, in real terms)	2014	2015e	2016f	2017f
Private consumption	0.0	0.2	1.3	1.5
Public consumption	0.8	0.7	1.5	1.5
Gross fixed capital formation	-0.2	0.7	3.0	2.6
Equipment	1.3	3.0	4.1	1.6
Construction	-1.0	-1.2	2.0	3.5
Exports	2.1	2.6	4.9	2.5
Imports	1.3	2.3	5.4	2.7
Gross domestic product	0.4	0.9	1.8	1.5

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

Contributions* to real GDP growth (yoy)



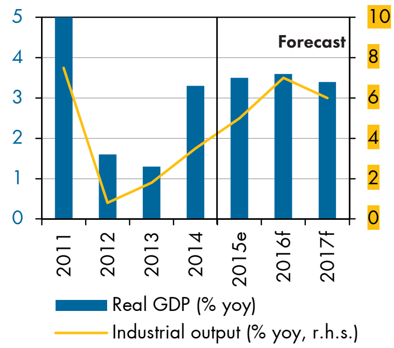
**in percentage points*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Raiffeisen RESEARCH

A bright future, if not for political risks

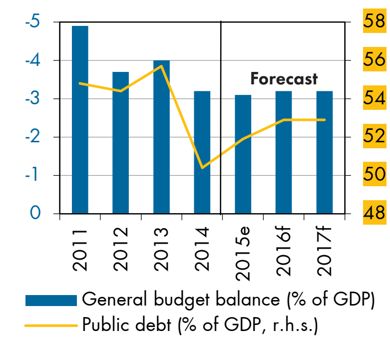
- Stable, balanced economic growth with upside risks due to fiscal stimulus
- Rising political pressure for additional monetary easing, including unconventional measures
- Only moderate bear steepening of LCY yield curve expected
- PLN expected to rebound from somewhat oversold levels in Q1, but risks tilted towards less strengthening

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

The parliamentary elections held in October 2015 resulted in a radical shift on the political scene as Law and Justice managed to win an absolute majority. From the very beginning, the party is using its dominance in the parliament to introduce "reforms" at a fast pace. This new legislation culture points to rising risks that the government will fully revise fiscal plans and introduce the vast majority of its election promises. The decisions to revise upward the 2015 deficit target at the very end of the year and to weaken the expenditure rule show that the 3% deficit to GDP limitation probably also will not be respected. As a result, we see a rising risk of returning to the EDP, which would put downward pressure on Poland's sovereign rating. At the same time, more fiscal expansion should trigger higher GDP, mainly through private consumption. With our base scenario of GDP growth close to 3.5% in 2016 and 2017, additional social spending and lower PIT might add even up to 2pp to overall growth. Right now, it is still not sure when the new expenditures will be executed so we decided to only slightly upgrade our GDP forecast and highlight the significant upside risks.

Fiscal policy might speed up the process of CPI getting back to target. Thanks to base effects, CPI should turn positive in Q1 2016 and follow a gradual upward trend, additionally supported by a closing output gap. Fiscal stimulus is concentrating on private consumption which might lead to demand-driven inflationary pressure re-emerging. This could even push CPI above our call of 1.7% for end-2016, but the ongoing commodity price risks prompt us to regard the risks to this forecast as balanced. Neither the base assumptions nor the balance of risks in terms of CPI and GDP growth would justify additional monetary loosening in our view. However, politicians are pushing for this, and with the personnel changes in the MPC (8 new members in Jan/Feb, new governor in June) the risks of additional easing remain elevated.

Key economic figures and forecasts

	2011	2012	2013	2014	2015e	2016f	2017f
Nominal GDP (EUR bn)	380.2	389.4	394.8	410.7	426.9	443.8	477.8
Real GDP (% yoy)	5.0	1.6	1.3	3.3	3.5	3.6	3.4
Industrial output (% yoy)	7.5	0.8	1.8	3.5	5.0	7.0	6.0
Unemployment rate (avg, %)	12.4	12.8	13.5	12.3	10.5	9.4	9.0
Nominal industrial wages (% yoy)	5.0	3.4	2.9	3.7	3.5	4.8	4.5
Producer prices (avg, % yoy)	7.6	3.3	-1.3	-1.5	-1.7	1.5	2.0
Consumer prices (avg, % yoy)	4.3	3.7	0.9	0.0	-0.9	1.3	2.0
Consumer prices (eop, % yoy)	4.6	2.4	0.7	-1.0	-0.4	1.7	2.3
General budget balance (% of GDP)	-4.9	-3.7	-4.0	-3.2	-3.1	-3.2	-3.2
Public debt (% of GDP)	54.8	54.4	55.7	50.4	51.9	52.9	52.9
Current account balance (% of GDP)	-5.1	-3.5	-1.3	-2.0	-0.1	-1.1	-1.7
Official FX reserves (EUR bn)	75.4	82.6	77.1	83.0	85.0	78.0	80.0
Gross foreign debt (% of GDP)	65.8	71.4	70.4	71.1	70.3	71.2	71.2
EUR/PLN (avg)	4.1	4.2	4.2	4.2	4.2	4.2	4.1
USD/PLN (avg)	3.0	3.3	3.2	3.2	3.8	4.1	3.8

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

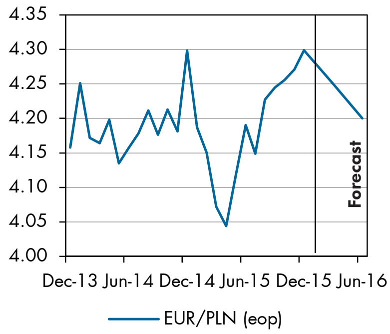
Financial market outlook

At the end of 2015, we observed a bear steepening of the Polish local currency yield curve. The latest bond market sell-off was triggered by the disappointing ECB decision in December which adversely impacted most European markets. Unanimous opinions of current MPC members in terms of additional rate cuts along with the latest PLN depreciation versus EUR triggered the partial pricing-out of rate cut bets which were timed for Q1 2016 after a possibly more dovish MPC was to take office. With market pricing additionally accounting for elevated fiscal risks, these domestic factors led to spread widening versus German benchmarks. Once the Fed tail risks become increasingly digested, the **room for further short-term losses seems limited** in our view, given the sufficient risk premium priced into the POLGB market. For the longer run, however, we expect yield increases to continue in the course of 2016 due to the ongoing fiscal risks, normalising inflation, and possibly disappointed rate cut bets. As these factors should have a stronger impact on long-term tenors compared to the ECB's QE, the yield curve should become steeper. This **bear steepening should be only moderate though, since we expect the inflation premium to replace the current political risk premium rather than come in on top of the latter.** Some unconventional central bank measures in order to mitigate pressure on POLGBs could also be implemented (e.g. some Hungary-style incentives for local bond investors to absorb potential liquidations by non-residents who are mainly positioned at the back end of the POLGB curve).

Given the PLN depreciation pressure due to the political changes in Poland as well as the ECB decision in late 2015, our **Polish zloty projection indicates appreciation for Q1 2016.** This can be argued via our assumption of markets processing the political changes in early 2016 and the mere fact that the **zloty seems to have overreacted** to a certain extent by returning towards the lows seen in late 2014/early 2015. Despite this assumption, **we would regard risks to our Q1 projections as tilted more towards a weaker rather than a stronger zloty.** The stronger political influence on the Monetary Council bears as much threat to our projection as the uncertainty regarding the budget outlook or the overall political changes. Then again, our forecast for the whole year 2016 is moderately positive for the zloty. Benign economic conditions and the markets digesting the new political constellation should give the zloty support against the euro. However, with the zloty remaining a proxy for overall CEE risk sentiment, any unsupportive external newsflow continues to have the potential to undermine such an appreciation trend.

Financial analysts: Marta Petka-Zagajewska, Michal Burek, Raiffeisen Polbank, Warsaw
Wolfgang Ernst, RBI Vienna

Exchange rate development



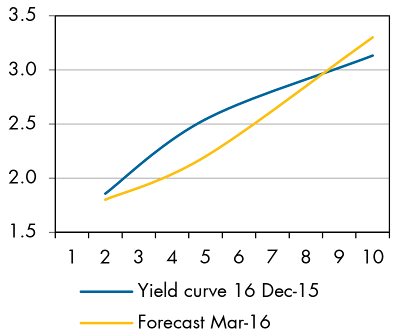
EUR/PLN: 5y high 4.56, 5y low 3.84
Source: Bloomberg, Raiffeisen RESEARCH

Exchange rate forecasts

	16-Dec[1]	Mar-16	Jun-16	Sep-16	Dec-16
EUR/PLN	4.30	4.25	4.20	4.20	4.15
Cons.		*4.20*	*4.18*	*4.15*	*4.13*
USD/PLN	3.93	4.05	4.08	4.16	4.11
Cons.		*3.97*	*4.05*	*3.99*	*3.94*

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

PLN yield curve (%)*



** 2y – 10y LCY government bond yields*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts (%)

	16-Dec[1]	Mar-16	Jun-16	Sep-16	Dec-16
Key rate	1.50	1.50	1.50	1.50	1.50
Consensus		*1.30*	*1.20*	*1.20*	*1.25*
1 month[2]	1.66	1.63	1.63	1.63	1.66
3 month[2]	1.72	1.70	1.70	1.71	1.75
Consensus		*1.45*	*1.35*	*1.37*	*1.41*
6 month[2]	1.77	1.75	1.75	1.76	1.83
12 month[2]	1.79	1.78	1.78	1.78	1.85

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

Yield forecasts (%)

	16-Dec[1]	Mar-16	Jun-16	Sep-16	Dec-16
2y T-bond[2]	1.86	1.8	1.9	2.0	2.2
Consensus		*1.6*	*1.5*	*1.6*	*1.7*
5y T-bond[2]	2.54	2.2	2.4	2.7	2.8
10y T-bond[2]	3.13	3.3	3.4	3.4	3.5
Consensus		*2.8*	*2.9*	*3.0*	*3.1*

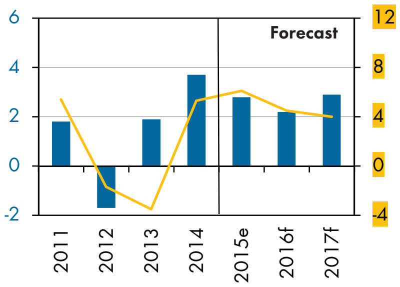
[1] 5:00 p.m. (CET) [2] Bid yield
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Raiffeisen RESEARCH

Growth rate largely influenced by EU funds

- **GDP growth rate to slow next year and we forecast 2.2% in 2016...**
- **...with rising household consumption and improving net exports as key pillars**
- **Favourable sentiment coupled with unconventional central bank to anchor LCY yield quite well...**
- **...while after that moderate bear steepening of the HGB-curve should be inevitable due to cyclical factors**

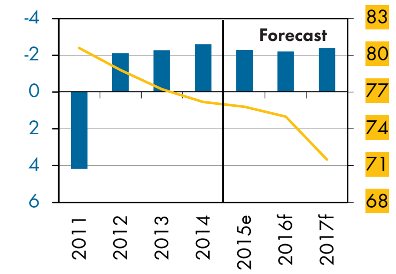
Real GDP (% yoy)



Real GDP (% yoy)
Industrial output (% yoy, r.h.s.)

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



General budget balance (% of GDP)
Public debt (% of GDP, r.h.s.)

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

Economic growth decelerated during the first three quarters of 2015 (the yoy GDP growth rate was 3.5% in Q1; 2.7% in Q2 and 2.4% in Q3). On the production side, it was mainly agriculture that contributed to the unfavourable trend. Industry and service sectors performed decently, underpinning the two pillars of the Hungarian growth pattern (rising exports and domestic consumption). Looking ahead, we expect this growth pattern to stay, but we have modified our GDP forecasts. For **2016 our forecast is reduced to 2.2%** (from the previous 2.5%), but on the same account our **2017 forecast is revised upwards to 2.9%** (from 2.3%). The rationale behind these changes derives from the following considerations: (1) the basic pattern of economic growth is more or less unchanged; (2) utilisation of EU funds will decline in 2016 and rise again in 2017. We expect approximately a 1.2-percentage point GDP contribution from both industry and service sectors in 2016-2017 on the production side and similar performance by household consumption and net exports on the uses side. The impact of EU funds is likely to alter the overall picture though. Hungary is to receive EUR 21.9 bn in cohesion funds in the 2014-2020 budget period, but the absorption is not evenly spread over the timeline. We saw intensive utilisation of the funds in 2013-2015 (from the previous EU budget). In these years, EU funds contributed to economic growth by more than 0.5% points annually. We **expect a marked slowdown in the absorption of EU funds in 2016**, with accelerated drawdown procedures starting from 2017 (note that 2018 is the next election year – therefore political rationality supports such a biased logic). Accordingly, in 2016 economic growth will be negatively influenced by the lower utilisation of EU funds (this explains our 2.2% GDP growth forecast), and in 2017 we expect more inflows and consequently once again a rise in the GDP growth rate (to 2.9%).

Key economic figures and forecasts

	2011	2012	2013	2014	2015e	2016f	2017f
Nominal GDP (EUR bn)	100.7	99.0	101.3	104.2	109.7	113.5	116.9
Real GDP (% yoy)	1.8	-1.7	1.9	3.7	2.8	2.2	2.9
Industrial output (% yoy)	5.4	-1.7	-3.5	5.3	6.1	4.5	4.0
Unemployment rate (avg, %)	11.0	10.9	10.3	7.9	7.0	6.2	5.7
Nominal industrial wages (% yoy)	6.2	-0.7	4.4	4.0	4.6	5.5	6.0
Producer prices (avg, % yoy)	4.3	4.3	0.7	-0.4	-0.6	1.5	2.9
Consumer prices (avg, % yoy)	3.9	5.7	1.7	-0.2	0.0	1.9	2.7
Consumer prices (eop, % yoy)	4.1	5.0	0.4	-0.9	1.2	2.9	2.7
General budget balance (% of GDP)	4.2	-2.1	-2.3	-2.6	-2.3	-2.2	-2.4
Public debt (% of GDP)	80.6	78.8	77.2	76.2	75.8	75.0	71.5
Current account balance (% of GDP)	0.7	1.9	4.1	3.9	3.7	3.7	3.6
Official FX reserves (EUR bn)	37.6	33.9	33.8	34.7	32.6	28.7	25.8
Gross foreign debt (% of GDP)	134.5	128.5	117.6	113.9	104.8	96.9	89.8
EUR/HUF (avg)	279.4	289.2	296.8	308.7	310.5	314.7	324.4
USD/HUF (avg)	201.2	225.1	223.6	232.8	279.8	308.5	300.4

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

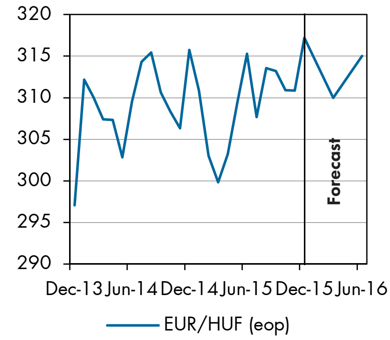
Financial market outlook

Hungary's central bank (MNB) is proceeding with the same monetary strategy as has been carried out under the self-financing scheme over the last one and a half years. It is aimed at reducing external vulnerability, not only of the public but also of the private sector. So far, a number of unconventional measures have been taken by MNB: On the one hand, the share of HGB securities held by foreign investors is intended to be further reduced. On the other hand, excess liquidity should be channelled into private sector credit expansion, or, if this does not happen, into the local debt market in order to simply stabilise demand. As a result of these measures, the HGB holdings of foreign investors started to decline significantly in 2015 H2 (dropping by HUF 1,000 bn since mid-2015 to below HUF 4,000 bn at the end of 2015). At the same time, we saw a 70-80bp decline in interbank rates and a 10-80bp tightening in shorter-maturity HGBs, while the 10-year yield was barely flat during the last year outperforming regional peers, such as Poland or Romania. Looking forward, **we see a high probability that the central bank will roll out new measures in H1 2016,** especially if the inflation outlook worsens again or if it turns out that implicit targets cannot be met, such as unwanted appreciation pressure on the forint. In our **baseline scenario**, the **MNB will therefore lower the base rate further to 1%** from the current 1.35% and take **new QE-ish actions by mid-2016** which should target the long-end of the LCY yield curve and cushion the pressure stemming from the probable rises in core market yields. This technical support for the yield curve comes on top of the currently favourable investor sentiment towards Hungary which makes us quite positive on this sovereign, although a cyclically driven, moderate bear steepening of the curve seems inevitable as 2016 progresses.

Despite recent forint weakening, EUR/HUF remained in a relatively tight trading range of roughly 310-315 for most of Q4 2015. Our outlook for the forint thereby extends this stability versus the euro, projecting EUR/HUF to remain in the aforementioned range in Q1 2016 as well. In **Q1, some short-term support could arise from a possible rating upgrade back into the investment category,** which is reflected in our very **moderate strengthening assumption for EUR/HUF.** Then again, the MNB's policy of moderate HUF weakening and the slowdown in economic performance are bound to push the forint somewhat weaker over the coming quarters, albeit in our view with only very limited movement against an already weakening euro.

Financial analysts: Zoltán Török, Gergely Pálffy, Raiffeisen Bank Zrt., Budapest
Stephan Imre, RBI Vienna

Exchange rate development



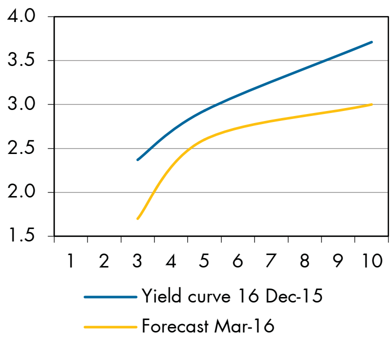
EUR/HUF: 5y high 321.02, 5y low 262.04
Source: Bloomberg, Raiffeisen RESEARCH

Exchange rate forecasts

	16-Dec[1]	Mar-16	Jun-16	Sep-16	Sep-16
EUR/ HUF	317.20	310.0	315.0	315.0	320.0
Cons.		*311.0*	*312.0*	*315.0*	*312.0*
USD/ HUF	289.85	295.2	305.8	311.9	316.8
Cons.		*298.0*	*305.0*	*305.0*	*297.0*

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

HUF yield curve (%)*



** 3y – 10y LCY government bond yields*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts (%)

	16-Dec[1]	Mar-16	Jun-16	Sep-16	Dec-16
Key rate	1.35	1.00	1.00	1.00	1.00
Consensus		*1.30*	*1.30*	*1.30*	*1.40*
1 month[2]	1.36	1.00	1.05	1.05	1.05
3 month[2]	1.35	1.00	1.05	1.05	1.05
Consensus		*1.40*	*1.46*	*1.56*	*1.58*
6 month[2]	1.35	1.10	1.15	1.15	1.15
12 month[2]	1.36	1.10	1.15	1.15	1.15

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

Yield forecasts (%)

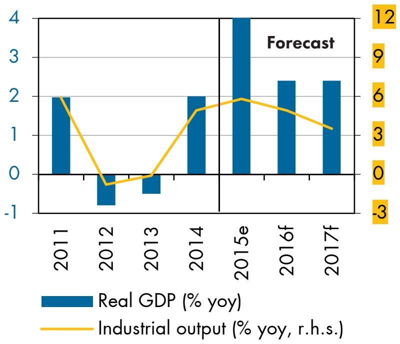
	16-Dec[1]	Mar-16	Jun-16	Sep-16	Dec-16
3y T-bond[2]	2.37	1.7	1.7	1.8	1.9
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*
5y T-bond[2]	2.93	2.6	2.7	2.8	3.0
10y T-bond[2]	3.71	3.0	3.2	3.3	3.4
Consensus		*3.35*	*3.39*	*3.55*	*3.71*

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

Strong growth is not sustainable

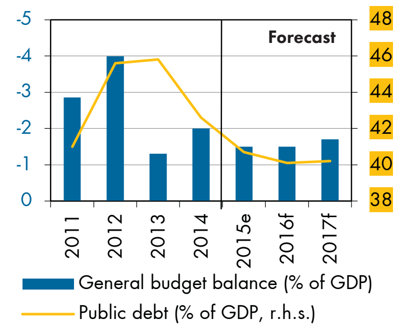
- Deceleration will follow the previous robust economic gains
- Inflation should gradually rise as oil will rebound
- Exit from FX regime challenging and should not come before Q1 2017
- CZK appreciation bets should keep CZK bond spread to Bunds in negative territory

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

Despite the upcoming slowdown in GDP growth and the expected decrease in public investment, the **Czech economy remains well balanced,** domestic demand is strong, external balance is healthy, and private investments are solid. The labour market has been making strides towards pre-crisis levels. The unemployment rate reached a 6-year low (5.9%), employment is at historic high, and for 1 job opening there are on average only four job applicants versus seven applicants a year ago. In an international comparison, the Czech unemployment rate is one of the lowest in Europe. As the **tightening of the Czech labour market is expected to continue in 2016** as well, it will pressure employers to start increasing wages. Some gradual rise in the real average wage has already been observed in 2015. However, the dynamics of the nominal wages should accelerate more visibly (above 4% yoy) in 2016.

As the unemployment rate is ready to break through the NAIRU level and wage growth is expected to rise considerably, inflationary pressures should mount. In 2015, increases in consumer prices were subdued, due to slumps in prices of volatile items in the consumer basket, mainly food and energy prices. Furthermore, the Czech Republic was exposed to deflationary pressures from abroad. **In 2016,** oil prices are expected to rebound and the threat of deflation in the euro area should fade. Therefore, **consumer prices should start rising towards the Czech National Bank's inflation target.** We expect core inflation will move gradually up from month to month towards 1.5% by end 2016. However, the dynamics of the CPI index will be highly dependent on the development of volatile items, mostly oil prices. As the rebound of oil prices is expected to be gradual, we see breaking the 2% inflation level in Q4 2016. However, any unexpected sudden strong rise in oil prices could easily speed up inflation and make the rate reach the CNB's inflation target faster than currently forecasted.

Key economic figures and forecasts

	2011	2012	2013	2014	2015e	2016f	2017f
Nominal GDP (EUR bn)	163.5	160.8	156.9	154.7	163.9	172.3	185.2
Real GDP (% yoy)	2.0	-0.8	-0.5	2.0	4.3	2.4	2.4
Industrial output (% yoy)	5.9	-0.8	-0.1	4.9	5.8	4.9	3.5
Unemployment rate (avg, %)	6.7	6.8	7.7	7.7	6.5	6.1	5.9
Nominal industrial wages (% yoy)	3.5	3.2	1.0	2.9	3.4	5.0	4.9
Producer prices (avg, % yoy)	5.6	2.1	0.8	-0.8	-3.1	1.1	2.4
Consumer prices (avg, % yoy)	1.9	3.3	1.4	0.4	0.4	1.3	2.0
Consumer prices (eop, % yoy)	2.4	2.4	1.4	0.1	0.2	2.2	2.0
General budget balance (% of GDP)	-2.9	-4.0	-1.3	-2.0	-1.5	-1.5	-1.7
Public debt (% of GDP)	41.0	45.6	45.8	42.6	40.7	40.1	40.2
Current account balance (% of GDP)	-2.1	-1.6	-0.5	0.6	1.0	1.1	-0.4
Official FX reserves (EUR bn)	31.0	34.0	40.8	45.0	62.6	89.8	93.0
Gross foreign debt (% of GDP)	54.8	60.2	63.5	66.6	65.6	63.6	63.4
EUR/CZK (avg)	24.6	25.1	26.0	27.5	27.3	27.0	26.1
USD/CZK (avg)	17.7	19.6	19.6	20.8	24.6	26.5	23.7

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

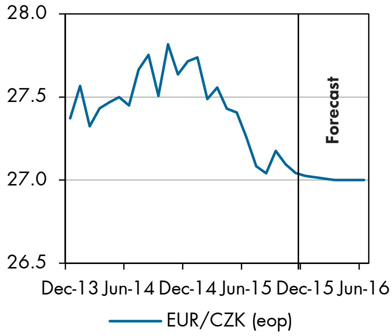
Financial market outlook

In 2016, market expectations regarding the EUR/CZK trajectory will play an important role for the performance of the Czech government bond market. **The stronger the speculation on future CZK appreciation once the CNB exits the FX regime, the lower CZGB yields will be** (and the more negative the FX basis swap will be). At the end of 2015, the Czech government bond yield curve was very close or even lower than the German benchmark. For 2016, we expect a budget deficit at around 1.5% of GDP, i.e. roughly the same amount as estimated for 2015. It is quite likely that the Ministry of Finance will once again use a substantial portion of cash reserves for deficit financing. It is not clear, though, whether it will decide to issue Eurobonds. Nevertheless, **the refinancing position of the MoF remains very favourable**. As we approach the FX intervention regime exit which we now do not expect to occur before Q1 2017, CZK-denominated bonds should remain more attractive compared to German Bunds. In the 10y maturity segment, we expect a significant negative yield spread over the German counterpart. Nevertheless, as domestic inflation is expected to pick up, bond yields should gradually increase. Following the exit from the FX regime and the related materialisation of CZK appreciation, profit-taking should push yields considerably higher, initiating the normalisation of the Czech bond market.

The wording of the Czech National Bank (CNB) indicated that the end to the FX regime could be rolled back towards the end of 2016 after previously referring to H2 2016 as a possible date. Nevertheless, we see **significant risks that the end to the FX regime will be further postponed into early 2017**. For one, the chances are high that we will not yet reach the 2% inflation target of the central bank, while on the other hand the ECB continues with its expansive monetary policy. That said, we would currently expect the CNB to keep the EUR/CZK cap at close to 27.0 in place throughout 2016. Speculation pressure should continue, thus forcing the CNB to intervene on a regular basis. Higher inflation figures would spur additional speculation, making stronger interventions necessary. The need to use higher amounts of intervention could once again boost speculation as to whether the CNB can sustain its policy. Whereas we currently project that the CNB can sustain its intervention strategy until early 2017, the next question would then be the strategy the central bank can use to end the regime. We think the **CNB might be forced to continue intervening** as volatility could increase significantly when it ends the FX regime.

Financial analysts: Daniela Milučká, Helena Horská, Michael Brozka, Raiffeisenbank a.s., Prague
Wolfgang Ernst, RBI Vienna

Exchange rate development



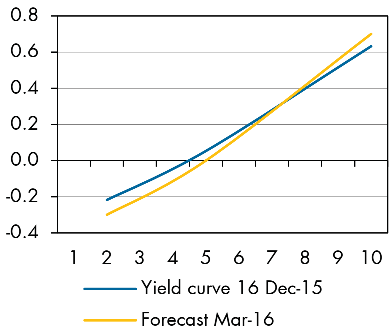
EUR/CZK: 5y high 28.35, 5y low 23.99
Source: Bloomberg, Raiffeisen RESEARCH

Exchange rate forecasts

	16-Dec[1]	Mar-16	Jun-16	Sep-16	Dec-16
EUR/CZK	27.03	27.00	27.00	27.00	27.00
Cons.		*27.00*	*27.00*	*27.00*	*27.00*
USD/CZK	24.70	25.71	26.21	26.73	26.73
Cons.		*25.75*	*26.31*	*26.23*	*26.00*

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

CZK yield curve (%)*



** 2y – 10y LCY government bond yields*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts (%)

	16-Dec[1]	Mar-16	Jun-16	Sep-16	Dec-16
Key rate	0.05	0.05	0.05	0.05	0.05
Consensus		*0.05*	*0.05*	*0.05*	*0.10*
1 month[2]	0.20	0.22	0.22	0.20	0.20
3 month[2]	0.29	0.30	0.30	0.30	0.30
Consensus		*0.30*	*0.28*	*0.32*	*0.33*
6 month[2]	0.37	0.40	0.40	0.45	0.50
12 month[2]	0.46	0.45	0.53	0.55	0.60

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

Yield forecasts (%)

	16-Dec[1]	Mar-16	Jun-16	Sep-16	Dec-16
2y T-bond	-0.22	-0.3	-0.3	-0.2	-0.2
Consensus		*-0.2*	*-0.3*	*-0.1*	*0.0*
5y T-bond	0.05	0.0	0.1	0.2	0.3
10y T-bond	0.63	0.7	0.8	0.9	1.1
Consensus		*0.7*	*0.8*	*1.0*	*1.2*

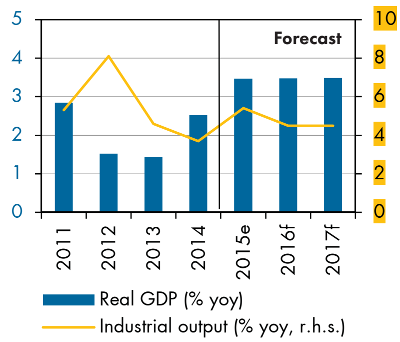
[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Raiffeisen RESEARCH

Looking for new growth incentives

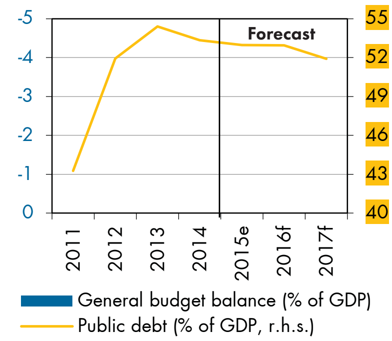
- **Solid growth due to strong investments 16% yoy in 2015**
- **Unemployment reached EU average**
- **New automotive factory confirmed (Jaguar/Land Rover)**
- **Slow reinflation in 2016, but solid wage growth**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic growth in Slovakia accelerated again to reach 3.7% yoy in Q3 2015. As a result, we may see an increase in GDP growth to around 3.5% yoy in 2015. The growth structure is skewed to investment, which contributes roughly 70% to GDP growth.

The base effect from the strong investment growth of 16% yoy is the main risk factor for 2016. As the drawdown of EU funds will no longer be as high as it was in 2015, there will be a need to compensate from other sources. We expect that the **current economic and interest rate environment should be encouraging enough to spur private investments** as well. One good sign for private investment growth is the final confirmation of the Jaguar Land Rover investment and the start of activity at the building site. Nevertheless, the major contributions of this investment to GDP growth should only be visible in 2018. **In 2016, growth should be more balanced** thanks to a higher contribution from net exports, due to better growth in Slovakia's export partners. All in all, **GDP should increase by the same rate as in 2015 (3.5% yoy).** Solid support for growth should also be provided by domestic demand, backed by very good employment growth and solid wage growth.

Consumer inflation reached a new record low at -0.6% yoy in November 2015. Average inflation should be around -0.2% yoy this year. Although the oil price should gradually **increase in 2016, the inflation rate should still remain subdued.** There are a few reasons to expect such a development. First, regulated energy prices (gas, electricity) will be lower by a few percentage points. Second, VAT on specific food categories is to be lowered from 20% to 10% starting from 2016. Thanks to these effects, headline inflation will be around 0.7% yoy, although the average rate of inflation should be 1.1% yoy. In our opinion, the second-round effects of higher oil prices will be visible only in 2017.

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

Key economic figures and forecasts*

	2011	2012	2013	2014	2015e	2016f	2017f
Nominal GDP (EUR bn)	70.4	72.4	73.8	75.6	78.0	81.1	85.7
Real GDP (% yoy)	2.8	1.5	1.4	2.5	3.5	3.5	3.5
Industrial output (% yoy)	5.3	8.1	4.6	3.7	5.4	4.5	4.5
Unemployment rate (avg, %)	13.4	13.9	14.2	13.2	11.7	11.0	10.3
Nominal industrial wages (% yoy)	3.6	4.0	3.6	5.1	2.6	3.5	4.5
Producer prices (avg, % yoy)	2.6	3.9	-0.1	-3.5	-4.2	-1.0	2.0
Consumer prices (avg, % yoy)	3.9	3.6	1.4	-0.1	-0.2	0.7	2.5
Consumer prices (eop, % yoy)	4.4	3.2	0.4	-0.1	-0.1	1.2	2.5
General budget balance (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public debt (% of GDP)	43.3	51.9	54.4	53.3	53.0	52.9	51.9
Current account balance (% of GDP)	-5.0	0.9	1.5	0.1	-1.4	-0.7	-0.5
Gross foreign debt (% of GDP)	74.9	70.2	80.8	89.7	95.8	96.3	81.5

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

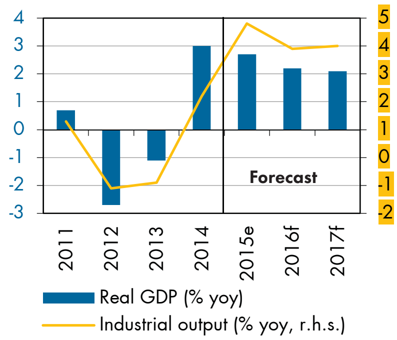
Solid growth – but 2008 GDP to be reached in 2017 only

- **Post-crisis recovery with GDP growth well above potential continues in 2016**
- **Lack of strong inflationary pressure like in the rest of the euro area**
- **Stable public debt and external deleveraging bode well for debt metrics, positive rating action(s) feasible in 2016**
- **ECB QE support shallow market, but watch out for debt lengthening and pre-financing**

Growth momentum turned out a bit stronger-than-expected in 2015. Therefore the final GDP growth rate for 2015 is likely to come in just slightly below 3% yoy. The main drivers of economic growth in 2015 had been solid external demand, modestly positive developments in domestic demand as well as a solid usage of EU-funds (like in several other CE peers). Given the outlook for less EU-fund absorption as well as a slightly higher growth of imports we expect economic growth to moderate to some 2.2% yoy. Nevertheless, with such growth **Slovenia will continue to outpace euro area growth while such growth** rates should also help to **gradually stabilize or slightly reduce public debt** going forward – a tendency that was already visible in 2015 compared to previous years of fast debt accumulation. External debt deleveraging continued in 2015 and we expect this tendency to continue over the next few years. The favourable setup of **external deleveraging**, a very **solid current account surplus** position, a **stable public debt-to-GDP ratio** coupled with a **moderately positive growth outlook** should be **rewarded by external rating agencies.** Therefore, we see positive rating actions and/or rating upgrades as a feasible scenario in 2016. This should bode well for investor sentiment, while the shallow government bond market should also continue to profit from ECB QE-induced buying and spread compression. Given positive investor sentiment we expect the **Slovenian government to actively tap markets** going forward, while also **lengthening the overall maturity** of the outstanding government bonds. Such maturity lengthening could be either achieved via new issuance and/or tapping existing outstanding longer-dated issues. As long as the country continues with its privatisation agenda (that was announced in 2013) investor sentiment should also remain well anchored from this point of view (out of 15 enterprises earmarked for privatisation, five companies have been sold up to now). Nevertheless, it has to be mentioned that with its current growth momentum Slovenia will "just" reach its 2008 GDP level in 2017, while the unemployment rate will just gradually inch to 8 or 8.5% in 2016 or 2017. Therefore, Slovenia's economic data still show how painful it is to overcome the legacy issues stemming from the last euro area (bank) leverage cycle.

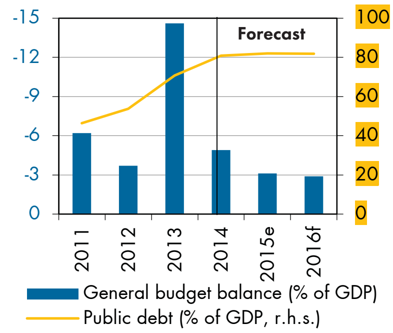
Financial analyst: Gunter Deuber, RBI Vienna

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Key economic figures and forecasts*

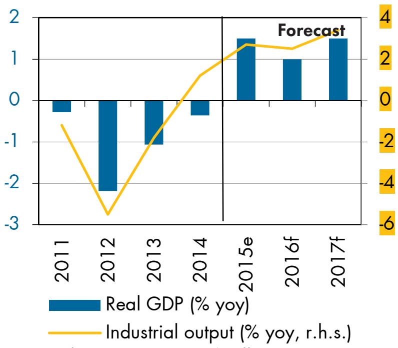
	2011	2012	2013	2014	2015e	2016f	2017f
Nominal GDP (EUR bn)	70.4	72.4	73.8	75.6	78.0	81.1	85.7
Real GDP (% yoy)	2.8	1.5	1.4	2.5	3.5	3.5	3.5
Industrial output (% yoy)	5.3	8.1	4.6	3.7	5.4	4.5	4.5
Unemployment rate (avg, %)	13.4	13.9	14.2	13.2	11.7	11.0	10.3
Nominal industrial wages (% yoy)	3.6	4.0	3.6	5.1	2.6	3.5	4.5
Producer prices (avg, % yoy)	2.6	3.9	-0.1	-3.5	-4.2	-1.0	2.0
Consumer prices (avg, % yoy)	3.9	3.6	1.4	-0.1	-0.2	0.7	2.5
Consumer prices (eop, % yoy)	4.4	3.2	0.4	-0.1	-0.1	1.2	2.5
General budget balance (% of GDP)	-4.1	-4.2	-2.6	-2.9	-2.5	-1.9	-0.9
Public debt (% of GDP)	43.4	52.1	54.6	53.6	53.4	52.8	51.9
Current account balance (% of GDP)	-5.0	0.9	1.5	0.1	-1.4	-0.7	-0.5
Gross foreign debt (% of GDP)	74.9	70.2	80.8	89.7	95.8	96.3	81.5

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

Recovery underway, but risks remain

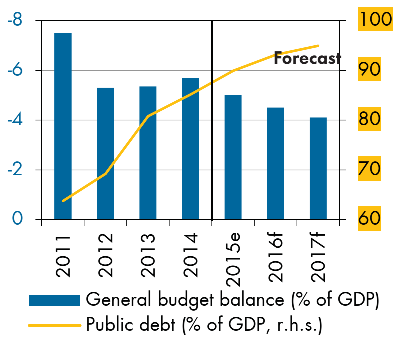
- **Recovery is gaining momentum, but its sustainability is questionable**
- **High political uncertainty, risk of new elections and/or fragile coalition**
- **2016 as an opportunity to improve public finances, critical starting point has to be digested**
- **FX stability above all**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

Driven by exports, growth in Q3 2015 picked up to 2.8% yoy and 1.3% qoq, respectively. Income tax changes, the lack of any inflationary pressures, and positive spillovers from the tourist season contributed to the rebound in private consumption. **High frequency indicators point to continued positive growth** in Q4, driven by increased external demand, the extended tourist season, and the usual increase in consumer optimism ahead of elections. Despite the recovery in 2015, it seems that deep-rooted structural weaknesses were not tackled. The lack of any serious fiscal consolidation on the expenditure side (despite the higher budget revenues) is the reason why the budget deficit remained elevated, at close to 5% of GDP. Therefore, even this year the **Excessive Deficit Procedure (EDP) target is out of reach**. Ultimately, due to the structural problems the recovery is very slow and fragile. Moreover, the recovery is not powerful enough to seriously reduce unemployment or to increase employment which is among the lowest in the EU.
In 2016, Croatia should continue to benefit from integration with the single European market in terms of exports thus keeping in the mid-term perspective C/A in surplus. In addition, higher EU funds absorption should support public and private investment. The deleveraging of households still seen in 2015 will come to a halt, but their consumption can only follow mild economic growth. However, the estimated 2016 growth is primarily exposed to risks on the downside. **Political uncertainty** as well as the undefined scope of fiscal consolidation measures for 2016 and 2017 **could hamper the outlook**. Both factors are actually crucial for the country's credit rating as a surge in the risk premium would put pressure on the financing costs of the already highly indebted public and private sectors. Thus, there really are **no alternatives to reforms** and **putting public debt on a sustainable path.** The most critical indicators for fiscal consolidation are not just the headline deficit, but also real GDP growth and inflation. In order to keep the public debt-to-

Key economic figures and forecasts

	2011	2012	2013	2014	2015e	2016f	2017f
Nominal GDP (EUR bn)	44.7	44.0	43.5	43.0	43.6	44.3	45.6
Real GDP (% yoy)	-0.3	-2.2	-1.1	-0.4	1.5	1.0	1.5
Industrial output (% yoy)	-1.2	-5.5	-1.8	1.2	2.7	2.5	3.4
Unemployment rate (avg, %)	13.7	15.9	17.4	17.3	16.2	16.0	15.8
Nominal industrial wages (% yoy)	1.3	1.9	1.7	1.5	1.5	1.5	1.5
Producer prices (avg, % yoy)	6.4	7.0	0.5	-2.7	-3.9	0.5	2.2
Consumer prices (avg, % yoy)	2.3	3.4	2.2	-0.2	-0.4	1.1	1.5
Consumer prices (eop, % yoy)	2.1	4.7	0.3	-0.5	0.2	1.5	1.8
General budget balance (% of GDP)	-7.5	-5.3	-5.4	-5.7	-5.0	-4.5	-4.1
Public debt (% of GDP)	63.7	69.2	80.8	85.1	89.9	93.1	94.9
Current account balance (% of GDP)	-0.7	-0.1	1.0	0.8	4.7	1.5	1.5
Official FX reserves (EUR bn)	11.2	11.2	12.9	12.7	13.0	13.1	12.9
Gross foreign debt (% of GDP)	103.7	103.0	105.7	108.5	109.0	109.5	109.8
EUR/HRK (avg)	7.43	7.52	7.58	7.63	7.62	7.65	7.66
USD/HRK (avg)	5.35	5.85	5.71	5.76	6.86	7.50	7.09

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

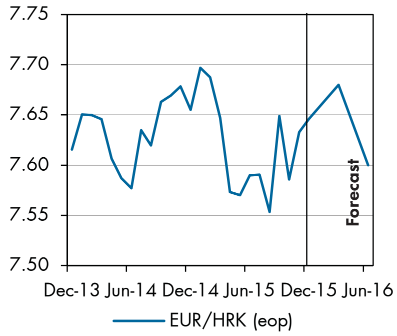
GDP ratio constant and lower it gradually Croatia needs a sweeping structural fiscal consolidation as well as GDP growth and CPI readings close to 2% yoy or even above that throughout the next cycle (i.e. over the next 5 to seven years). Given the very low growth and inflation rates seen over the last few years, signs of overleverage in the whole economy (in the public and private sector) and the lack of a history of (structural) fiscal consolidation over the last decade(s) there are significant risks that Croatia's public debt-to-GDP ratio remains at close to 90% for an extended period of time, while **any growth shock to the real economy may immediately put debt sustainability into question** in the years to come. The sketched challenging fundamental situation is reflected in a currently very cautious market pricing towards Croatia. In the USD-market Croatia is currently trading some 60bp outside of Serbia (which has its own challenges on the fiscal front) or 140bp outside of Romania. This pricing shows the striking relative underperformance of Croatia vs. regional peers. The relative performance vs. the global market (i.e. the EMBIG Global USD) is not that bad as global EM risk pricing soared in recent years (while the CEE index outperformed global EM). Currently, **we do not expect a further significant near-term spread widening** from where we are currently and current spread levels seem to compensate for the fiscal challenges from a short-term perspective. Moreover, the country still has some buffers at hand to reduce the public debt burden (at least with regards to widely watched debt ratios), e.g. via tapping into the pension system savings (like other CE countries) did or selling stakes in state-owned and listed companies. Nevertheless, we see Croatia remaining at the edge of running into debt sustainability problems for a longer period of time. Investors have to watch carefully, whether relevant variables for debt sustainability (budget balance, GDP growth and inflation) are inching towards levels that are needed to stabilize public debt. Otherwise there is still room that Croatian risk pricing will soar.

FX market outlook

The uncertainty in the market caused by the compulsory conversion of loans in CHF into loans in EUR mirrored in the temporary increase in short-term HRK interest rates as well as a relatively strong FX move towards a higher rate, was quickly alleviated by central bank measures. Committed to its policy of preserving the stability of EUR/HRK, the CNB intervened on the FX market by selling euros and reactivated open market operations via one-week reverse repo auctions. Following this intervention, EUR/HRK stabilised at below HRK 7.65 even without the usual seasonal depreciation of HRK. Even in the coming months low FX volatility is suggested by fundamentals. On the one hand, **HRK might feel some slight pressure from the CHF conversion process**, political uncertainty, and poor fiscal metrics. However, the economic recovery and the surplus on the current account will remain the main supportive factors for the local currency.

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

Exchange rate development



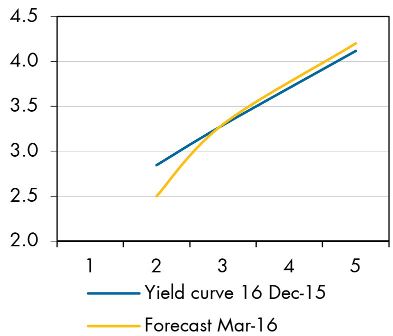
EUR/HRK: 5y high 7.72, 5y low 7.34
Source: Bloomberg, Raiffeisen RESEARCH

Exchange rate forecasts

	16-Dec[1]	Dec-15	Mar-16	Jun-16	Dec-16
EUR/HRK	7.65	7.68	7.60	7.65	7.68
Cons.		*7.69*	*7.69*	*7.69*	*7.69*
USD/HRK	6.99	7.31	7.38	7.57	7.60
Cons.		*7.26*	*7.27*	*7.29*	*7.30*

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

HRK yield curve (%)*



** 2y – 5y LCY government bond yields*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts (%)

	16-Dec[1]	Mar-16	Jun-16	Sep-16	Dec-16
1 month[2]	1.02	0.80	0.80	0.90	1.00
3 month[2]	1.28	1.20	1.20	1.30	1.30
Consensus		*1.52*	*1.49*	*1.64*	*1.65*
6 month[2]	1.57	1.30	1.30	1.40	1.40
12 month[2]	2.01	1.80	1.80	1.80	1.90

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

Yield forecasts (%)

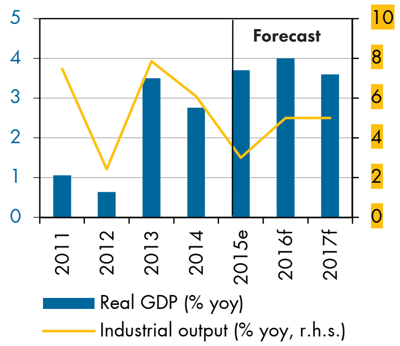
	16-Dec[1]	Mar-16	Jun-16	Sep-16	Dec-16
2y T-bond	2.85	2.5	2.5	2.6	2.6
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*
5y T-bond	3.29	3.3	3.3	3.4	3.4
10y T-bond	4.12	4.2	4.3	4.3	4.3
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*

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

Faster GDP growth, increasing macro imbalances

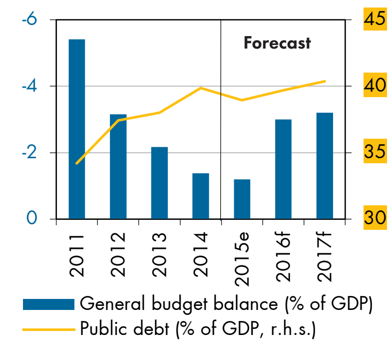
- **Fast increase in private consumption as the key driver of GDP growth**
- **Fiscal consolidation was abruptly reversed, actions of caretaker government will be key**
- **NBR to focus on persistent inflationary pressures, but no rate hikes expected in 2016**
- **Elevated risk premium to lead to higher volatility on FX and ROMGB market**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

GDP dynamics in Q3 2015 (1.4% qoq and 3.6% yoy) beat our expectations and analyst' consensus. Moreover, real GDP excluding agriculture – a better indicator to track the performance of the Romanian economy in our view – expanded at an astonishing pace of 5.5% yoy in Q3. The **rapid growth in private consumption (6.6% yoy) was the key engine of GDP expansion in Q3** and should remain so in the coming quarters. Households' real disposable income received another boost in Q4 2015 as wages in the public sector were raised substantially (25% for healthcare sector, 15% for education, and 10% for other public servants). The reduction of the standard VAT rate to 20% from 24% at the beginning of 2016 will provide additional stimulus. All in all, households should remain in a positive mood going forward, preserving an elevated propensity to spend and even to borrow. Sectors relying on domestic demand, especially services, are benefitting the most from the rapid expansion of consumption. The contraction in agricultural output should weigh on the Q4 GDP figure (temporary weakness), while the poor performance of exports (contraction both in Q2 and in Q3) is of more concern. As a sign of fragile external demand, it points to risks for deceleration in economic growth after the first-round impact of the fiscal stimulus fades out.

As both the main ruling party and the main opposition party showed reluctance to take over the government after PM Ponta unexpectedly resigned, the President Iohannis had room to install a technocratic government. However, to a large extent, fiscal policy for 2016 is on auto pilot. As the Parliament voted the Laws enforcing important cuts in taxes and increases of public wages with an overwhelming majority, it not would have made sense for the new Cabinet (largely seen as a transition solution) to try to reverse such measures. Accordingly, the **public budget targets for 2016/17 are now both set close to 3.0% of GDP**, showing an abrupt reversal of the fiscal consolidation trend.

Key economic figures and forecasts

	2011	2012	2013	2014	2015e	2016f	2017f
Nominal GDP (EUR bn)	133.3	133.5	144.3	150.0	158.5	169.7	185.3
Real GDP (% yoy)	1.1	0.6	3.5	2.8	3.7	4.0	3.6
Industrial output (% yoy)	7.5	2.4	7.9	6.1	3.0	5.0	5.0
Unemployment rate (avg, %)	7.2	6.8	7.1	6.8	6.8	6.5	6.5
Nominal industrial wages (% yoy)	6.7	4.6	4.2	7.4	7.0	7.0	5.4
Producer prices (avg, % yoy)	7.1	5.4	2.1	-0.1	-2.1	1.1	3.0
Consumer prices (avg, % yoy)	5.8	3.3	4.0	1.1	-0.6	-0.3	2.7
Consumer prices (eop, % yoy)	3.1	5.0	1.6	0.8	-0.5	1.5	2.8
General budget balance (% of GDP)	-5.4	-3.2	-2.2	-1.4	-1.2	-3.0	-3.2
Public debt (% of GDP)	34.2	37.4	38.0	39.9	38.9	39.7	40.4
Current account balance (% of GDP)	-4.9	-4.8	-1.1	-0.5	-1.0	-2.5	-3.3
Official FX reserves (EUR bn)	37.1	35.4	35.4	35.7	32.0	33.0	34.5
Gross foreign debt (% of GDP)	75.0	75.5	68.0	63.2	59.3	57.8	56.1
EUR/RON (avg)	4.24	4.46	4.42	4.44	4.45	4.43	4.35
USD/RON (avg)	3.05	3.47	3.33	3.35	4.01	4.34	4.03

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

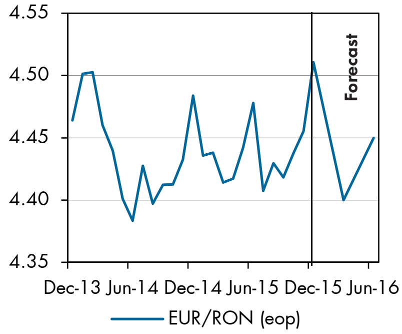
Financial market outlook

The annual inflation rate is deep in negative territory (-1.1% yoy in November), mainly as a result of the cut in VAT on food products in June 2015 (to 9% from 24%) and falling fuel prices. Otherwise, underlying inflationary pressures are not so low. The HICP excluding energy and unprocessed food increased by 2.1% yoy in November assuming that indirect taxes would have remained unchanged. However, this elevated underlying inflationary pressure will not surface in the headline inflation rate until Q1 2017 as in 2016 it will be offset by the cut in the standard VAT rate to 20% from 24% enforced in January 2016. **Uncertainty related to the inflation outlook remains important**, fuelled by changes in energy prices and by size of the pass-through of the VAT cuts. The balance of risks to our short-run inflation forecast is on the downside (effective inflation possibly below forecast). When setting the level of the key rate, we expect the central bank to focus on underlying inflationary pressures, on the rapid dynamics of domestic demand, and the risks stemming from the reversal of the fiscal consolidation trend. All of these should provide reasons for the NBR to keep the **key rate unchanged at 1.75% during 2016, which should also anchor short-end RON bonds fairly well**. The liquidity surplus in the money market fuelled by large public spending at the end of 2015 will keep money market interest rates below the key rate in Q1 2016 if foreign investors' sentiment on RON assets remains positive. But as time passes in 2016 the liquidity conditions should become tighter and the money market rates are likely to increase from their ultra-low levels.

EUR/RON might be much more affected by external topics such as disappointing ECB measures and the ongoing rate hikes in the USA. In the case of increased speculation about snap elections we might witness additional short-term depreciation pressure on the leu, albeit volatility should remain subdued in such a scenario when compared to other emerging FX rates. In line with this, we would expect the risk premium in longer-dated RON government bonds to widen. Moreover, it seems **unlikely that an agreement with the IMF will be reached before the 2016 elections**. Considering the fact that IMF cooperation served as a credible policy anchor, its lack might result in periods with more volatility for the leu in the medium term. Furthermore, fiscal risks could continue weighing on the leu. Nevertheless, growing expectations about the start to interest rate hikes by the end of 2016 could lend support going forward, but lead, at the same time, to a cyclical rise in ROMGB yields. However, we do not expect excessive spread widening.

Financial analysts: Nicolae Covrig, Raiffeisen BANK S.A., Bucharest
Stephan Imre, RBI Vienna

Exchange rate development



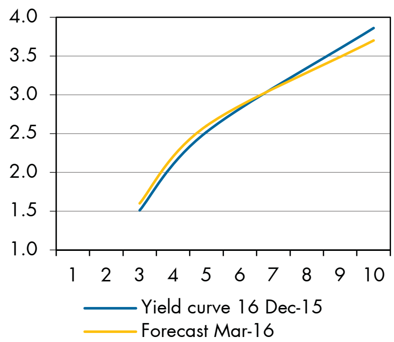
EUR/RON: 5y high 4.64, 5y low 4.07
Source: Bloomberg, Raiffeisen RESEARCH

Exchange rate forecasts

	16-Dec[1]	Mar-16	Jun-16	Sep-16	Dec-16
EUR/RON	4.51	4.40	4.45	4.40	4.40
Cons.		*4.43*	*4.42*	*4.43*	*4.42*
USD/RON	4.12	4.19	4.32	4.36	4.36
Cons.		*4.23*	*4.33*	*4.24*	*4.25*

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

RON yield curve (%)*



** 3y – 10y LCY government bond yields*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts (%)

	16-Dec[1]	Mar-16	Jun-16	Sep-16	Dec-16
Key rate	1.75	1.75	1.75	1.75	1.75
Consensus		*1.75*	*1.75*	*1.85*	*2.10*
1 month[2]	0.70	1.10	1.55	1.70	1.75
3 month[2]	1.04	1.30	1.60	1.75	1.80
Consensus		*1.20*	*1.48*	*1.60*	*2.07*
6 month[2]	1.34	1.40	1.65	1.80	1.85
12 month[2]	1.53	1.50	1.70	1.85	1.90

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

Yield forecasts (%)

	16-Dec[1]	Mar-16	Jun-16	Sep-16	Dec-16
3y T-bond[2]	1.51	1.6	1.8	1.9	2.2
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*
5y T-bond[2]	2.52	2.6	2.7	2.9	3.2
10y T-bond[2]	3.86	3.7	3.9	4.0	4.1
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*

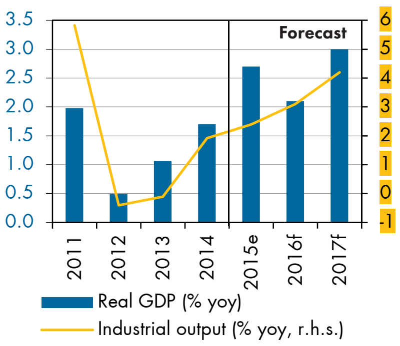
[1] 5:00 p.m. (CET) [2] Bid yield
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Raiffeisen RESEARCH

In line with the trend, but somewhere in the middle

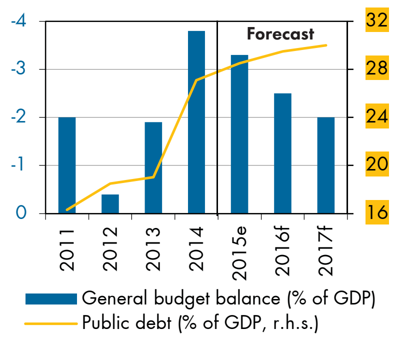
- **Government to be stable in a precarious external environment**
- **Tangible GDP growth accompanied by rising public indebtedness**
- **More effective EU funds absorption needed**
- **Banking sector prepared for upcoming Asset Quality Review and stress testing**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

The political situation is expected to stabilise, despite the tense external environment and contradictions between the coalition partners in relation to the judicial reform. In fact, all ruling parties enjoyed improved results in the municipal elections in October 2015 and therefore have strong incentives to continue supporting the current government, amidst circumstances including nearby military conflicts and the wave of refugees.

Profiting from the better economic conditions (weaker euro, low oil prices, and cheaper money) and despite the precarious external environment, real GDP grew faster than anticipated (real growth of 2.5% in 2015) in the low inflation environment. As expected, **the main drivers were net exports and a moderate increase in household consumption** on the back of falling interest rates on deposits. Despite the rising gross budget deficit (-3.3% of GDP after amendments in November), investments remained sluggish. Against the backdrop of declining public spending (stipulated -2.0% deficit), the expected higher oil prices and the fading effects of the ECB's quantitative easing in 2016 will push GDP growth slightly downwards to 2.1% in 2016. The anticipated stronger capacity for absorption of EU funds did not materialise in 2015, despite the government's promises. For 2016 it is forecast to remain below the EU average.

In 2015, the **banking sector overcame the turmoil involving Corporate Commercial Bank and First Investment Bank** in H2 2014 as well the financial crisis in Greece. The main challenge in 2016 seems to be the Asset Quality Review (AQR) and stress testing, which are to finish by the middle of the year. Most of the banks are believed to be ready for the upcoming AQR. However, for some institutions it may be difficult to meet the criteria, and this is expected to bolster consolidation in the sector.

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

Key economic figures and forecasts

	2011	2012	2013	2014	2015e	2016f	2017f
Nominal GDP (EUR bn)	40.1	40.9	41.0	42.0	43.9	45.8	48.2
Real GDP (% yoy)	2.0	0.5	1.1	1.7	2.7	2.1	3.0
Industrial output (% yoy)	5.8	-0.4	-0.1	1.9	2.4	3.1	4.2
Unemployment rate (avg, %)	11.3	12.3	12.9	11.4	11.0	10.7	9.8
Nominal industrial wages (% yoy)	10.1	11.5	0.9	0.9	2.0	2.1	3.0
Producer prices (avg, % yoy)	9.4	4.2	-1.4	-1.2	0.5	2.4	2.5
Consumer prices (avg, % yoy)	4.2	3.0	0.9	-1.4	0.1	2.2	3.0
Consumer prices (eop, % yoy)	2.8	4.2	-1.6	-0.9	1.0	2.0	3.0
General budget balance (% of GDP)	-2.0	-0.4	-1.9	-3.8	-3.3	-2.5	-2.0
Public debt (% of GDP)	16.3	18.5	19.0	27.1	28.5	29.5	30.0
Current account balance (% of GDP)	0.1	-0.8	1.8	0.0	3.9	0.8	-0.5
Official FX reserves (EUR bn)	13.3	15.6	14.4	16.6	18.2	20.2	21.2
Gross foreign debt (% of GDP)	90.5	92.1	90.0	94.7	92.3	90.9	85.0
EUR/BGN (avg)	1.96	1.96	1.96	1.96	1.96	1.96	1.96
USD/BGN (avg)	1.41	1.52	1.47	1.47	1.76	1.92	1.78

Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Second year of public sector reforms

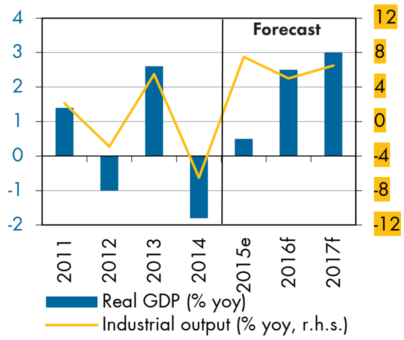
- **IMF will be prompting staff downsizing and SOE privatisation**
- **Monetary policy easing mood to persist, but the key rate will remain flat**
- **Yields still on the downside backed by the IMF deal and nice economic outlook**
- **EUR/RSD depreciating only moderately amidst good economic growth**

The positive impact of FDI, infrastructure projects, and exports have outweighed the dampening impact of public sector reforms on the economy, which emerged from recession in 2014 to post an estimated 0.5% GDP increase in 2015. We maintain that growth will accelerate in 2016 (+2.5% yoy), supported by **investment, export and import growth, and a recovery in agriculture after the drought in 2015**. Private and public spending might be on the downside, given the redundancy programmes that will be launched in the public sector from Q1 2016. EUR/RSD traditionally weakens in Q1, and we believe this pattern will be repeated in 2016 as well, given the prolonged holiday season in January and lower economy activity. The base effect will support inflation temporarily returning to the targeted range in January, but it will then fall below the range (4% +/- 1.5pp) soon after and stay there until September when another round of electricity price hikes (possibly other state regulated prices as well) will take effect. That said, the **NBS should maintain the key rate flat at 4.5% throughout 2016** or might carry out one more cut if Fed rate hikes do not cause major FX volatilities. Potential EUR/RSD volatilities amidst the Fed monetary policy shift will be managed via FX interventions and/or mandatory reserve changes.

The IMF arrangement will be focused on the restructuring of large state-owned enterprises (SOEs), namely electricity, gas, railways and road companies, as the biggest budget drainers. Following the budget deficit decline from 6.6% in 2014 to around 4% in 2015, the ratio will linger at an almost unchanged level in 2016. The slowdown in the public debt growth will be a function of the lower gross financing needs in 2016 (EUR 5.4 bn) vs EUR 5.8 bn in 2015, as the government plans to reduce the debt issuance expecting that rising tax revenues will be sufficient to cover the budget financing needs. **Risk appetite for local debt will be a function of the reform pace and the IMF SBA deal performance**, as well as the impact of the gradual Fed's fightening on global markets.

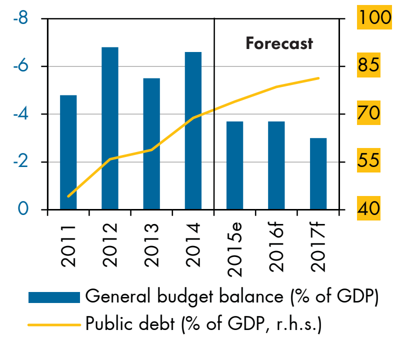
Financial analyst: Ljiljana Grubic, Raiffeisenbank a.d., Belgrade

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Bloomberg, Raiffeisen RESEARCH

Key economic figures and forecasts

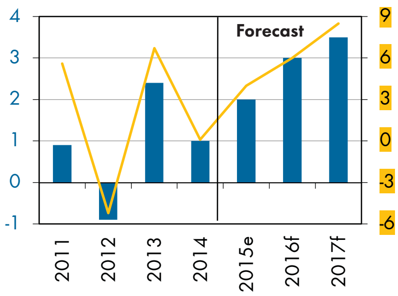
	2011	2012	2013	2014	2015e	2016f	2017f
Nominal GDP (EUR bn)	33.4	31.7	34.3	33.1	33.2	34.9	36.9
Real GDP (% yoy)	1.4	-1.0	2.6	-1.8	0.5	2.5	3.0
Industrial output (% yoy)	2.1	-2.9	5.5	-6.5	7.5	5.0	6.5
Unemployment rate (avg, %)	23.0	23.9	22.1	19.4	19.8	22.0	19.0
Nominal industrial wages (% yoy)	5.0	1.5	1.5	4.0	5.0	4.0	4.0
Producer prices (avg, % yoy)	14.2	5.6	3.6	1.3	2.0	3.0	3.5
Consumer prices (avg, % yoy)	11.3	7.8	7.8	2.9	1.4	4.0	4.5
Consumer prices (eop, % yoy)	7.0	12.2	2.2	1.7	2.5	4.5	4.5
General budget balance (% of GDP)	-4.8	-6.8	-5.5	-6.6	-3.7	-3.7	-3.0
Public debt (% of GDP)	44.2	55.9	58.8	68.8	74.0	78.5	81.3
Current account balance (% of GDP)	-8.6	-11.5	-6.1	-6.0	-4.6	-5.2	-5.7
Official FX reserves (EUR bn)	12.0	10.9	11.2	10.0	10.9	12.0	13.0
Gross foreign debt (% of GDP)	72.2	81.1	75.4	78.6	81.6	80.6	79.4
EUR/RSD (avg)	102.0	113.0	113.1	117.3	120.8	123.2	125.4
USD/RSD (avg)	73.3	88.0	85.2	88.5	108.8	120.8	114.0

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Accelerating economic dynamics in the period ahead

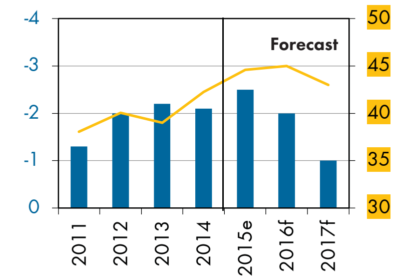
- **Expected GDP expansion of 3.0% in 2016, up from 2.0% in 2015**
- **New SBA with the IMF as a precondition for fiscal stability in 2016**
- **Investment, exports, and household consumption all with positive outlook**
- **Three-year deflation trend should finally be broken in 2016**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Positive economic dynamics were mirrored in real GDP growth of 2.0% yoy, as our baseline-scenario for 2015 was left unchanged. Macroeconomic data since early 2015 point to **strengthening economic performance based on exports and household consumption**. Nevertheless, despite the moderate real GDP expansion, per capita GDP will only remain at around 28% of the EU average. The end of 2015 also brought political stabilisation in the country as the new FB&H Government was sworn in at the end of October. Given that it is mainly political factors which shape our mid-term economic projections, stabilisation of the political scene provides a strong foundation for accelerating economic dynamics in the period ahead. We expect that the new stand-by agreement (SBA) with the IMF will be signed in Q1 2016, providing fiscal stability which was under severe pressure in 2015, as expected, because the SBA programme went off-track due to delays in the implementation of previously agreed structural reforms. Consequently, the general budget deficit should return to a much more comfortable level of 2.0% in 2016 from 2.5% in 2015. Stabilisation on the political scene should also speed up investment in the areas of infrastructure and the energy sector. Therefore, with a projected growth rate of 7.5% yoy (in real terms), **gross fixed capital formation should come to the forefront of the forecasted GDP growth in 2016**, which is estimated at 3.0% yoy in real terms. As expected, investment in 2016 is dominantly labour-intensive construction works, and we anticipate a more aggressive decline in the unemployment rate (to 25.0% from 27.0% in 2015), accompanied by moderate growth in net wages and disposable income. Therefore, we expect private consumption to keep growing in 2016 (2.5% yoy in real terms). Exports of goods and services should continue to benefit from the tangible pick-up in economic activity in the euro area in 2016. Finally, we expect the three-year deflation trend to finally be broken in 2016, with the target inflation rate at 1.0% yoy.

Financial analyst: Srebrenko Fatusic, Raiffeisen BANK d.d., Bosnia & Herzegovina

Key economic figures and forecasts

	2011	2012	2013	2014	2015e	2016f	2017f
Nominal GDP (EUR bn)	13.4	13.4	13.7	13.9	14.3	15.1	16.1
Real GDP (% yoy)	0.9	-0.9	2.4	1.0	2.0	3.0	3.5
Industrial output (% yoy)	5.6	-5.2	6.7	0.1	4.0	6.0	8.5
Unemployment rate (avg, %)	27.6	28.0	27.5	27.5	27.0	25.0	22.5
Nominal industrial wages (% yoy)	6.8	2.2	-0.5	0.3	0.0	3.0	5.0
Producer prices (avg, % yoy)	3.8	1.3	-2.2	-0.2	0.5	1.5	2.5
Consumer prices (avg, % yoy)	3.7	2.1	-0.1	-0.9	-0.5	1.0	2.0
Consumer prices (eop, % yoy)	3.1	1.8	-1.2	0.0	-0.2	1.7	2.4
General budget balance (% of GDP)	-1.3	-2.0	-2.2	-2.1	-2.5	-2.0	-1.0
Public debt (% of GDP)	38.1	40.0	39.0	42.2	44.6	45.0	43.0
Current account balance (% of GDP)	-9.6	-9.1	-5.9	-7.6	-7.0	-7.6	-8.1
Official FX reserves (EUR bn)	3.3	3.3	3.6	4.0	4.1	4.3	4.7
Gross foreign debt (% of GDP)	65.7	62.0	61.4	63.1	62.7	62.7	59.1
EUR/BAM (avg)	1.96	1.96	1.96	1.96	1.96	1.96	1.96
USD/BAM (avg)	1.41	1.52	1.47	1.47	1.76	1.92	1.81

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Doing the Homework

- **Investments should support ongoing economic recovery**
- **Monetary policy to remain loose with a record-low key rate of 1.75%**
- **Lending activity should increase with the well-capitalised banking sector**
- **Judiciary system reform necessary for EU negotiation process**

The economy is expected to accelerate to around 3.5% in 2016, which will mark the best performance in the last six years. Domestic demand is already showing signs of recovery. The agriculture sector, which is historically an underperformer, is on the rise and will continue on a positive growth trend as improvements in infrastructure and sector incentives are paying off. On the other hand, **significant FDI is expected to start operating**, such as the gas transport project "Trans Adriatic Pipeline", and the "Devolli Hydropower Plant". Furthermore, the budget foresees capital investment at around 5.1% of GDP.

The accommodating monetary policy will continue throughout the year (with the key rate at 1.75%) as inflationary pressures remain subdued. The average inflation rate for this year is expected to hover around 2.5% partly due to the pressures of low price in international markets and production remaining below potential.

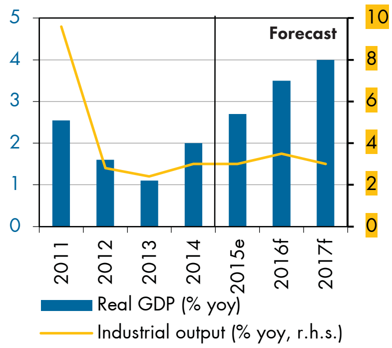
After the renewal of the Eurobond in November 2015, in addition to the EUR 300 mn roll-over, the government added another EUR 150 mn (for a total of EUR 450 mn at a coupon of 5.75%), thanks to the favourable market rates. Consequently, Albania's public debt increased to 73.7% of GDP. However this increase in public debt occurred with the consent of the IMF. This year, public debt is expected to drop to around 72.5% as the results of structural reforms kick in.

Despite the regional turmoil, the banking sector has managed to remain quite liquid and well capitalised. **Lending activity should increase** this year at an estimated pace of around 5-7%, as local rates are on a downward trend and the judiciary system reform will increase the confidence of the private sector.

Judiciary reform has been the key requirement of the EU in the last few years and was promised by the government to start in mid-2016. This reform is the country's biggest challenge to getting the green light for the EU negotiation process and will also boost investor confidence in the country.

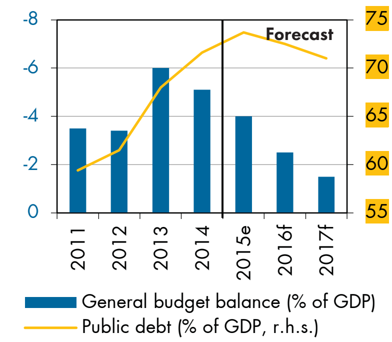
Financial analyst: Valbona Gjeka, Raiffeisen Bank Sh.a., Tirana

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Key economic figures and forecasts

	2011	2012	2013	2014	2015e	2016f	2017f
Nominal GDP (EUR bn)	9.3	9.6	9.7	10.2	10.8	11.6	12.4
Real GDP (% yoy)	2.6	1.6	1.1	2.0	2.7	3.5	4.0
Industrial output (% yoy)	9.6	2.8	2.4	3.0	3.0	3.5	3.0
Unemployment rate (avg, %)	14.0	13.3	17.0	18.0	17.0	15.0	13.0
Nominal industrial wages (% yoy)	8.0	8.0	8.0	8.0	8.0	3.0	1.9
Producer prices (avg, % yoy)	2.6	1.1	-0.4	-0.5	1.0	2.0	2.0
Consumer prices (avg, % yoy)	3.5	2.0	1.9	1.6	1.8	2.5	3.0
Consumer prices (eop, % yoy)	1.7	2.4	1.9	0.7	1.9	2.5	3.0
General budget balance (% of GDP)	-3.5	-3.4	-6.0	-5.1	-4.0	-2.5	-1.5
Public debt (% of GDP)	59.4	61.5	68.0	71.6	73.7	72.5	71.0
Current account balance (% of GDP)	-11.9	-9.4	-10.5	-12.6	-12.9	-13.0	-13.7
Official FX reserves (EUR bn)	1.9	2.0	2.0	2.2	2.2	2.2	2.2
Gross foreign debt (% of GDP)	53.5	57.4	65.5	67.7	69.0	68.2	65.4
EUR/ALL (avg)	140.4	139.0	140.3	140.0	139.8	139.6	139.9
USD/ALL (avg)	100.9	108.2	105.7	105.5	126.0	136.9	129.5

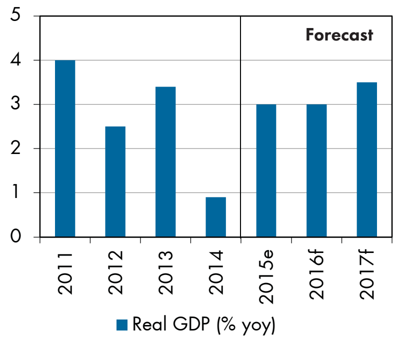
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

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

Recovering after the slump

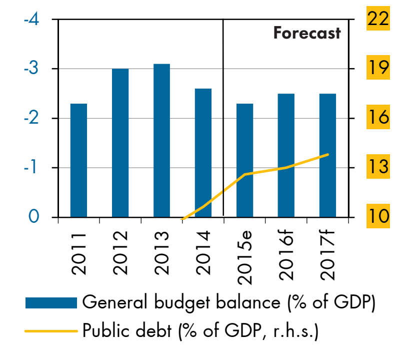
- **Economic growth to remain at relatively satisfying levels**
- **Growth in private and public investment**
- **Improvements in bank supervision framework well underway**
- **Dialogue with Serbia continues**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

The economy of Kosovo is expected to continue its trend of growth in Q4 2015. Even though expectations were low at the beginning of the year, economic growth in 2015 is expected to reach at least 3%. This will be generated by internal demand, while net exports will continue to have a negative impact on GDP. We should see the same growth level in 2016 driven mostly by **strong remittance inflows, domestic demand, and bank lending**. Private investment should grow as a result of credit activity, which is expected to accelerate due to declining interest rates and easing standards for loan approval by banks. Many planned projects, which were not realised in recent years, could add to the growth in public investment. Projects of particular importance, including the concession of the tourist complex “Brezovica” and continuation of works on the Pristina-Skopje highway, might also affect growth in private investment.

The assets of the financial system reached EUR 4.77 bn, marking growth of 7.1%. The main contributors to this were the banking and pension sectors. **Banks in Kosovo remain well capitalised and profitable.** The NPL ratio is very low and has been on a decreasing trend. Until August 2015 it was 7.5%. The Central Bank of Kosovo (CBK) has adopted a new, high-quality framework for how it would extend liquidity to banks in emergency situations, although it is not expected that this tool will be necessary in the near future given the currently healthy state of banks. Improvements to the bank supervision framework are also well underway; the CBK’s new, risk-based approach will allow it to better identify and address potential risks. The system of private bailiffs is proving to be very successful in improving contract enforcement and removing constraints to bank lending. Parliamentary activity stalled during Q4 2015 and this may impact the approval of important legislation and delay the government’s economic reform agenda.

Financial analyst: Arta Kastrati, Raiffeisen Bank Kosovo J.S.C., Priština

Key economic figures and forecasts*

	2011	2012	2013	2014	2015e	2016f	2017f
Nominal GDP (EUR bn)	4.8	5.1	5.3	5.4	5.6	5.9	6.2
Real GDP (% yoy)	4.0	2.5	3.4	0.9	3.0	3.0	3.5
Unemployment rate (avg, %)	44.8	30.9	30.0	35.3	34.0	34.0	33.0
Producer prices (avg, % yoy)	4.5	1.9	2.5	1.7	1.0	2.5	3.0
Consumer prices (avg, % yoy)	7.3	2.5	1.8	0.4	-0.5	1.5	2.0
Consumer prices (eop, % yoy)	3.6	3.7	0.5	-0.4	0.0	1.0	2.5
General budget balance (% of GDP)	-2.3	-3.0	-3.1	-2.6	-2.3	-2.5	-2.5
Public debt (% of GDP)	5.3	8.4	9.1	10.6	12.6	13.0	13.8
Current account balance (% of GDP)	-13.7	-7.5	-6.4	-8.2	-7.9	-7.7	-8.0
Official FX reserves (EUR bn)	0.6	0.8	0.8	0.7	0.8	0.8	0.8
Gross foreign debt (% of GDP)	29.7	30.0	30.2	32.2	32.2	32.3	32.1

** EUR official currency in Kosovo*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economy vulnerable to external factors

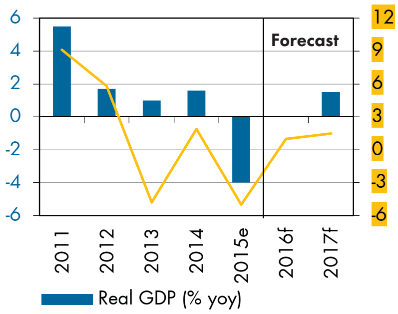
- External factors having a negative impact on the economy
- Belarus searches for new financing for external debt rollover
- Inflation targeting – the main goal of the government in the coming years
- Belarusian rouble expected to continue its depreciation trend

Economic activity in Belarus in 2015 was largely influenced by external factors, including weak external demand, low oil prices, and the recession in the Russian economy. As a result, since early 2015, Belarusian GDP growth remained negative, starting from a contraction of 0.4% yoy in January to about -4% yoy at the year-end. In 2016, the **economic situation is expected to remain difficult** as a quick economic rebound in Russia is unlikely and external demand for Belarusian investment goods will remain weak. As for the external accounts, the contraction of more than 25% yoy in imports due to weaker internal demand (negative real household incomes) led to a trade balance improvement and C/A deficit narrowing in 2015. Scheduled repayments on external debt were fully redeemed in 2015, but Belarus still continues to depend on external financing to rollover outstanding debts, and therefore continues negotiations with the IMF and the EFSD on new programmes. Success in the negotiations will depend on the ability to carry out the required reforms. In 2015, average annual inflation decreased to about 14% due a number of administrative measures (price regulation). Next year, the policy of inflation targeting will be continued, but there are existing risks of further LCY devaluation.

Following pressure on the Russian rouble, the Belarusian rouble went through a prolonged period of depreciation in 2015. This overall picture of depreciation is likely to continue throughout 2016 as well,. On a positive note, the Belarus Central Bank has loosened its control over the currency as urged by the IMF. Meanwhile, President Lukashenko has announced another **currency re-denomination: four zeros will be dropped on 1 July 2016**. Whereas this move could be seen as an attempt to curb inflation expectations or even anchor a broader economic overhaul, the inability to follow up with economic reforms would merely mean that the changes to the currency are cosmetic.

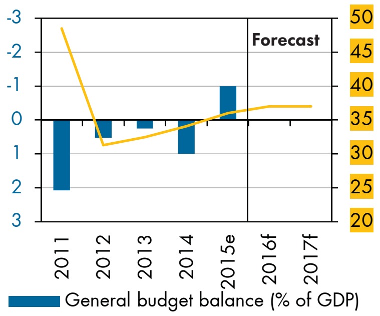
Financial analyst: Mariya Keda, Priorbank Open Joint-Stock Company, Minsk

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Key economic figures and forecasts

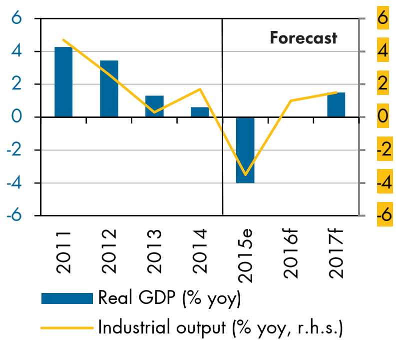
	2011	2012	2013	2014	2015e	2016f	2017f
Nominal GDP (EUR bn)	41.2	49.4	54.9	57.3	49.7	46.5	44.5
Real GDP (% yoy)	5.5	1.7	1.0	1.6	-4.0	0.0	1.5
Industrial output (% yoy)	9.1	5.8	-4.8	1.9	-5.0	1.0	1.5
Unemployment rate (avg, %)	0.6	0.5	0.5	0.5	1.0	1.5	2.0
Nominal industrial wages (% yoy)	59.2	93.8	35.2	20.1	15.0	15.0	12.0
Producer prices (avg, % yoy)	71.4	76.0	13.6	12.8	16.0	12.0	10.0
Consumer prices (avg, % yoy)	53.2	59.2	18.3	18.1	17.0	16.0	16.0
Consumer prices (eop, % yoy)	108.7	21.8	16.5	16.2	17.0	15.0	15.0
General budget balance (% of GDP)	2.1	0.5	0.2	1.0	-1.0	0.0	0.0
Public debt (% of GDP)	48.5	31.3	32.5	34.1	36.0	37.0	37.0
Current account balance (% of GDP)	-8.9	-2.9	-10.0	-6.6	-5.3	-6.7	-6.7
Official FX reserves (EUR bn)	6.1	6.1	4.8	4.2	2.7	2.8	2.5
Gross foreign debt (% of GDP)	63.7	51.9	51.8	57.8	61.6	67.5	63.3
EUR/BYR (avg)	7220	10747	11834	13597	17745	22008	27060
USD/BYR (avg)	5218	8360	8906	10250	15986	21576	24600

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Focus on the economy

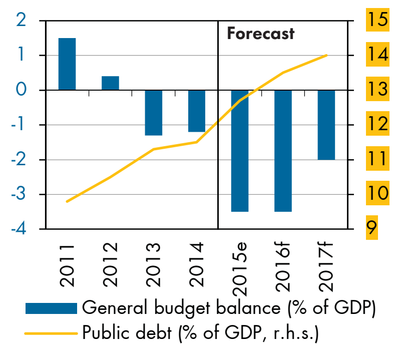
- **Economy will begin to recover in 2016, with an outlook for flat to slightly positive growth**
- **Projected oil price increase to support RUB for 2016 with risks remaining clearly elevated**
- **External risks and high inflationary expectations limit room for deep key rate cuts**
- **Nevertheless, short-end OFZ bonds should benefit, leading to a dis-inversion of the OFZ curve**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

Macro indicators demonstrated **significant improvement in recent months, but this tendency is not sustainable yet**. In the medium term, we expect a gradual recovery in industrial production and investments, even given the weak aggregate demand as the decline in inventories should become less pronounced. Although the situation with real income remains weak, we anticipate a considerable deceleration of the decline in real wages in 2016. First, we see that corporates have accumulated enough profits for the indexation of wages in the private sector. Second, we anticipate a decline in the CPI against the backdrop of fading pass-through effects from rouble depreciation. Unemployment should stabilise and remain low (5.5% avg.), as negative economic effects are compensated by demographic factors and implementation of anti-crisis initiatives for social stability. The anticipated improvement in the balance of payments will limit RUB depreciation, decrease inflationary pressure and stimulate a revival in consumption activity. We keep our estimate of GDP decline in 2015 at -4% with the perspective of flat to slightly positive growth in 2016.

At the moment inflation is decelerating slower than in the CBR's medium-term scenario. Despite the anticipation of sharp CPI deceleration in Q1 2016 due to the high statistical base, the resumed rise in inflation expectations is set to soften this effect. If this tendency continues it could question the possibility of deep rate cuts in Q1 2016 (we expect minus 100bp to 10.0%). The Central Bank has confirmed its estimate of the import ban on Turkey on inflation at 0.2-0.4pp as of end-2015/early-2016. The **regulator expects CPI to decrease to 6% by YE 2016, but this scenario is at risks** in terms of 1) oil price risks; 2) slower economic growth in China; 3) normalisation of US monetary policy; 4) persistent high inflation expectations; and 5) tariffs revisions and fiscal easing in general (which we find unlikely given the budget risks).

Key economic figures and forecasts

	2011	2012	2013	2014	2015e	2016f	2017f
Nominal GDP (EUR bn)	1369.1	1558.0	1563.9	1399.0	1120.9	1242.3	1266.7
Real GDP (% yoy)	4.3	3.4	1.3	0.6	-4.0	0.0	1.5
Industrial output (% yoy)	4.7	2.6	0.3	1.7	-3.5	1.0	1.5
Unemployment rate (avg, %)	6.6	5.7	5.6	5.3	5.5	5.5	5.5
Average gross wages (% yoy)	11.5	13.9	12.5	9.0	4.5	6.5	7.0
Producer prices (avg, % yoy)	12.0	5.1	3.7	6.5	10.0	8.0	6.0
Consumer prices (avg, % yoy)	8.5	5.1	6.8	7.8	15.6	8.8	8.4
Consumer prices (eop, % yoy)	6.1	6.6	6.5	11.4	12.8	9.0	8.0
General budget balance (% of GDP)	1.5	0.4	-1.3	-1.2	-3.5	-3.5	-2.0
Public debt (% of GDP)	9.8	10.5	11.3	11.5	12.7	13.5	14.0
Current account balance (% of GDP)	5.1	3.6	1.6	3.5	5.2	5.5	5.0
Official FX reserves (EUR bn)	384.1	407.8	369.8	318.5	352.4	366.3	321.7
Gross foreign debt (% of GDP)	28.3	31.8	35.1	32.2	41.4	37.1	32.3
EUR/RUB (avg)	40.9	39.9	42.3	51.0	68.5	67.0	71.2
USD/RUB (avg)	29.4	31.1	31.9	38.6	61.7	65.7	64.8

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

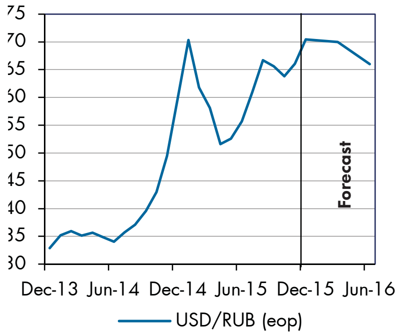
Financial market outlook

The close correlation of the oil price and the Russian rouble led to continued pressure on RUB during the past months, a factor that was amplified by elevated debt payments due in December. Whereas we expect some **support for the rouble throughout 2016 given our oil price projection** (we forecast USD 64 per barrel by end of 2016), the rouble is projected to show continued elevated volatility in 2016 (albeit not as massive as in 2015, in our view). For Q1 2016, we remain somewhat cautious and only project a sideways movement around levels of USD/RUB 70 as the low oil price level and weak economic conditions prevail. Only thereafter do we expect rouble strengthening if our call for a rise in the oil price materialises. Apart from the oil price, a relevant role will also be played by the CBR as RUB strengthening would possibly be used for more aggressive rate cuts and renewed FX purchases to replenish FX reserves. Additionally, a recovery in imports with an improving economy and capital outflows are expected to weigh on RUB, thereby possibly leading to a fall in the current high correlation of RUB to the oil price later in 2016. Despite our expectation for some appreciation in 2016, we want to stress the **risk of continued elevated volatility and the high reliability of oil price increases for our RUB projection**. That said, we see the risks to our forecast tilted more towards less RUB appreciation throughout 2016.

In September-December 2015, OFZ prices moved upward with yields on 10y papers tumbling by 150-200 bps to below 10% as of early-December. The rally was triggered by local banks which bought OFZs on receiving relatively cheap inflow of budget funds and on prospects of deep rate cuts. Later on, foreign investors climbed on the bandwagon, joining the rally with 10y OFZs touching levels around 9.25%. Another **supportive factor for fixed-coupon OFZs is the very low supply in comparison to redemption**: The Ministry of Finance sold only RUB 200 bn versus maturing OFZs in amount of RUB 518 bn. This tendency we expect to continue next year which should – ceteris paribus – keep OFZ valuations stretched. From a fundamental perspective, we estimate the fair yield for 10y OFZs at around 10% which is roughly in line with the current mid-December levels. At the same time, the yield curve currently looks too inverted with the 2y-10y benchmark spread at -40bp in mid-December exceeding its 6m average by some 30bp. In anticipation of resumed rate cuts and a stabilising rouble, our highest short-term conviction for the Russian bond market is to **position for bull steepening of OFZ curve.** In the longer term though, our favourable OFZ market outlook is mainly driven by the FX-component given our out-of-consensus bullish rouble call.

Financial analysts: Maria Pomelnikova, Denis Poryvay, AO Raiffeisenbank, Moscow
Wolfgang Ernst, RBI Vienna

Exchange rate development



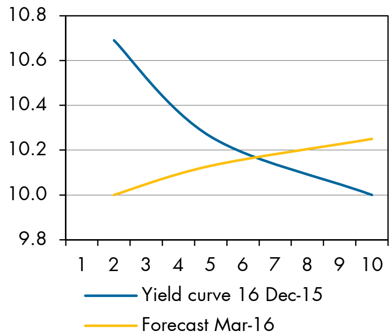
USD/RUB: 5y high 72.45, 5y low 27.29
Source: Bloomberg, Raiffeisen RESEARCH

Exchange rate forecasts

	16-Dec[1]	Mar-16	Jun-16	Sep-16	Sep-16
EUR/RUB	77.08	73.5	68.0	60.6	63.6
Cons.		*69.9*	*69.9*	*70.0*	*68.9*
USD/RUB	70.44	70.0	66.0	60.0	63.0
Cons.		*67.7*	*68.5*	*68.7*	*68.0*

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

RUB yield curve (%)*



** 2y – 10y LCY government bond yields*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts (%)

	16-Dec[1]	Mar-16	Jun-16	Sep-16	Dec-16
Key rate	11.00	10.00	10.00	10.00	10.00
Consensus		*9.8*	*9.0*	*8.5*	*8.1*
1 month[2]	12.07	10.65	10.70	10.80	10.80
3 month[2]	11.90	10.70	10.80	10.90	11.00
		n.v.	n.v.	n.v.	n.v.
6 month[2]					
12 month[2]	11.87	10.75	10.90	11.00	11.10

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

Yield forecasts (%)

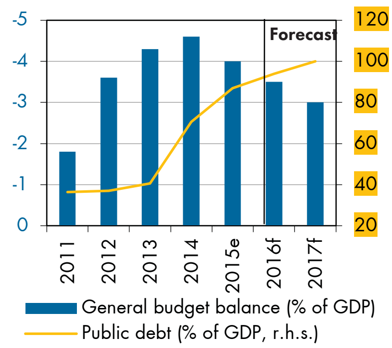
	16-Dec[1]	Mar-16	Jun-16	Sep-16	Dec-16
2y T-bond[2]	10.69	10.00	10.00	10.00	9.50
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*
5y T-bond[2]	10.26	10.13	10.25	10.20	9.75
10y T-bond[2]	10.00	10.25	10.50	10.40	10.00
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*

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

Economy recovering, despite social and political tensions

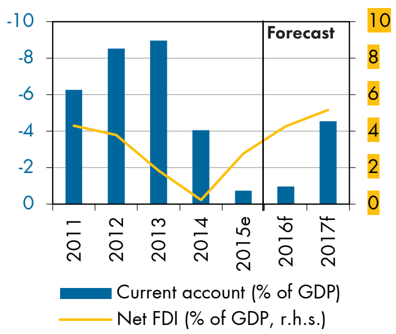
- After a short respite, ceasefire violations in Donbass appeared again
- Economic growth renewed in Q3
- UAH depreciation expected for 2016...
- ...but timing and extent of devaluation a political/central bank issue

Budget balance and public debt



Source: Thomson Reuters, Raiffeisen RESEARCH

Current account and FDI inflows



Source: Thomson Reuters, Raiffeisen RESEARCH

Political situation

After two months of relative peace in the east of Ukraine in September and October, an increased number of ceasefire violations were reported in November and December, thus casting a shadow over the perspectives for further implementation of the Minsk-II agreement. However, the OSCE is monitoring the situation carefully and all parties are reported to be involved in the dialogue. **Progress is noticeable in several areas such** as demining some of the territories and the exchange of military prisoners, etc., but the withdrawal of heavy weapons in certain locations has not yet been adequately substantiated. The local elections held in October added tensions in the internal political situation, giving rise to the growth of populism in the country and involving a series of scandals.

Economic outlook

The economy is slowly recovering. After seven quarters of recession, GDP finally grew by 0.7% qoq in Q3 against the backdrop of improving industrial output, FX market stabilisation, and a temporary lull in Donbass. According to our expectations, GDP will decline by 3-4% yoy in Q4, and thus we stand by our estimate of -10% yoy for the full year 2015. **For 2016, we expect the positive trend to continue and the economy to grow by 1-2% yoy, however risks are skewed to the downside.** Inflation is also favourable, as CPI slowed to 46.6% yoy in November (from almost 61% yoy in April) thanks to seasonality, relative stability on the FX market, and improving inflation methodology. In March-April 2016, the base effect will be very strong and inflation should decelerate noticeably. Thus, by the end of 2016 we expect that CPI will fall to the level of 11-12% yoy. After reaching balance in Q1-Q3, the current account moved back into deficit in October, due to the resumption of Russian gas and coal purchases. Taking into account growing energy imports in Q4, the C/A deficit will be around 0.8-1.2% of GDP

Key economic figures and forecasts

	2011	2012	2013	2014	2015e	2016f	2017f
Nominal GDP (EUR bn)	116.9	135.2	135.3	98.6	84.4	91.9	88.2
Real GDP (% yoy)	5.5	0.2	0.2	-6.8	-10.0	1.5	3.0
Industrial output (% yoy)	7.6	-1.0	-4.0	-10.7	-15.0	10.0	4.0
Unemployment rate (avg, %)	8.0	7.6	7.3	9.3	11.5	11.0	10.0
Nominal industrial wages (% yoy)	20.9	15.0	8.0	2.0	0.0	7.0	7.0
Producer prices (avg, % yoy)	19.0	3.6	-0.1	17.7	36.0	14.0	7.5
Consumer prices (avg, % yoy)	8.0	0.6	-0.2	12.1	48.5	16.0	10.0
Consumer prices (eop, % yoy)	4.6	-0.2	0.5	24.9	45.0	11.5	9.0
General budget balance (% of GDP)	-1.8	-3.6	-4.3	-4.6	-4.0	-3.5	-2.5
Public debt (% of GDP)	36.4	37.1	40.7	70.5	87.0	94.0	93.0
Current account balance (% of GDP)	-6.3	-8.5	-9.0	-4.0	-0.7	-1.0	-1.2
Official FX reserves (EUR bn)	24.5	18.6	14.8	6.2	12.9	16.8	17.4
Gross foreign debt (% of GDP)	77.6	76.5	79.3	96.4	128.1	133.3	134.0
EUR/UAH (avg)	11.1	10.4	10.8	15.9	24.2	26.0	31.2
USD/UAH (avg)	8.0	8.1	8.2	12.0	21.8	25.5	28.4

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

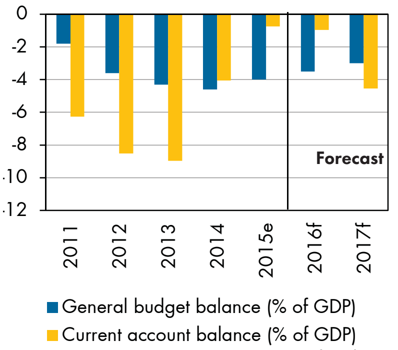
in 2015. In 2016, both exports and imports dynamics will improve against the backdrop of economic stabilisation, but the energy component in imports will still be essential, and the C/A will show a deficit of 1.0-2.0% of GDP.

Financial market outlook

Despite having extended the strict administrative measures that ensured the stability of UAH in recent months, the central bank was confronted with depreciation pressure during the fourth quarter. The central bank reacted with FX interventions (albeit only comparably small amounts were necessary) and the renewed extension of the administrative measures until 4 March 2016 (even toughening some of them). Going forward, we think the **overall depreciation pressure on UAH will persist,** while it remains up to the central bank as to when and how much depreciation will be allowed. In contrast to the past strong one-off depreciation moves, we would now **rather tend to expect continuous depreciation**. All in all, however, we have to stress the difficulty of estimating the timing and extent of depreciation as it is a political/central bank decision, thereby leaving considerable risk in the USD/UAH projection. At the same time, Ukraine finally finished the restructuring of USD 15 bn in external debt, thereby reducing total public debt by USD 3 bn. As a result, rating agencies improved Ukraine's ratings. However, due to problems with the adoption of tax reforms and the state budget for 2016, the **arrival of the next IMF tranche is greatly delayed.** Thus, the level of USD 18.3 bn in gross international reserves planed by the IMF for 2015 proved impossible. **On 16 December, on Russia's request, the IMF executive board officially ruled that the USD 3 bn Eurobond issued by Ukraine to Russia back in December 2013 should be treated as official bilateral debt of Ukraine.** Although the IMF decision bears no immediate implications this could still bring another deadlock between Ukraine and Russia. Normally, no official debt write-offs would be possible except in the case of world poorest countries which would be eligible for a special debt relief program of IMF/WB. So, in our opinion, here's why we could expect the situation around Ukraine's debt to turn even trickier now. On the one hand, potentially, the IMF decision should strengthen Russia's position against Ukraine in the dispute as Ukraine, most likely, would be unable to qualify or justify any debt reduction on official debt. On the other hand Russia could face new challenges in relation to possible lawsuit against Ukraine as the 3 bn debt was packaged into a commercial Eurobond contract which normally should be regarded therefore as commercial debt. We would also assume there could emerge complications relating to jurisdiction since direct bilateral debt normally would not be issued as tradable debt under the law of another country. **So far Ukraine's Eurobond market showed little reaction as the relevance of the very likely default on the Russian Eurobond as it is now officially bilateral debt. For the time being we expect a stronger stimulus for Ukraine to conduct negotiations in "good faith" per IMF guidelines.** Therefore, the most recent IMF ruling adds a constructive element to the complicate situation. Let's remind that Ukraine's USD 3 bn Eurobond falls due on 20 December while grace period would be ten days later end by the end of 2015. As a result, in case of non-payment, Ukraine would formally meet the new-year in default on the USD 3 bn debt owed to Russia. **As things stand we would expect tough bilateral negotiations. Such talks without the chance to rely on a strict IMF and/or court ruling could turn out very complicated** given the deterioration seen in bilateral relations recently (with an additional risk of deterioration once the DCFTA between EU and Ukraine enters fully into force beginning of 2016).

Financial analysts: Sergii Drobot, Raiffeisen Bank Aval Public Joint Stock Company, Kiev
Gintaras Shlizhyus, Wolfgang Ernst, RBI Vienna

Budget and current account balance



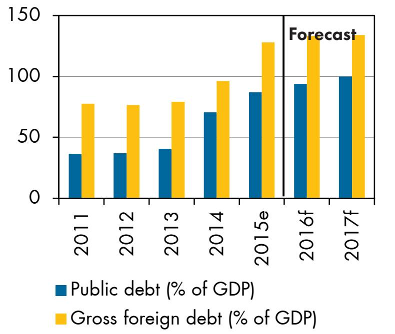
Source: State Statistics Committee of Ukraine, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

	16-Dec[1]	Mar-16	Jun-16	Sep-16	Dec-16
EUR/UAH	25.80	25.20	25.75	27.27	28.28
Cons.		*27.02*	*27.27*	*29.00*	*26.26*
USD/UAH	23.58	24.00	25.00	27.00	28.00
Cons.		*25.00*	*27.00*	*27.00*	*26.00*

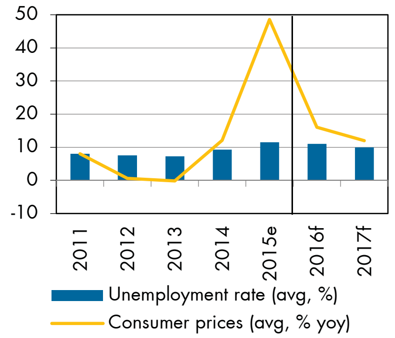
[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Public and external debt



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

Inflation outlook

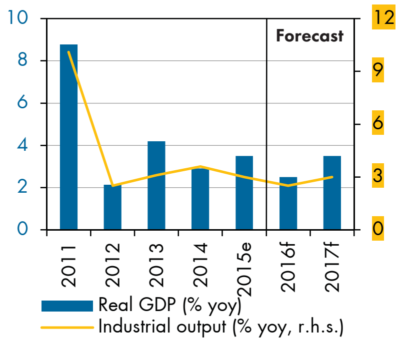


Source: State Statistics Committee of Ukraine, RBI/Raiffeisen RESEARCH

Defying the challenging (geo)political environment

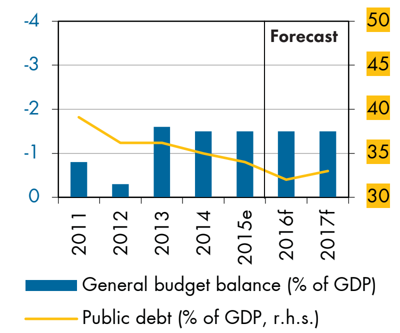
- **Surprisingly resilient growth up to now to be dampened by export weakness and fading fiscal stimulus**
- **Disinflation coming to a halt as minimum wages rise and energy prices resurge, offsetting cheaper food**
- **Risks of much weaker TRY levels remain, but rate hikes could stabilise lira later on**
- **This and the precarious Fed/(geo)political risk mix should maintain pressure on Turkish bonds in Q1**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

In politics there could be more stability in the cards as no major elections are scheduled. **The Turkish economy showed surprisingly strong growth** of 4% yoy and 1.3% qoq in Q3 2015. While private demand slowed to 3.4% yoy and both fixed capital investment and net exports stagnated, government expenditures and some restocking propelled growth. Full-year 2015 growth will come in close to 3.5%, higher than the 3% we expected. **We are less confident, however, regarding 2016 and thus reduce our projection from 3.5% to 2.5%.** Pre-election fiscal spending will be no longer available and export conditions have worsened with Russia imposing sanctions affecting food imports and tourism costing 0.3%-0.7% of GDP (EBRD estimate). The impact of bilateral sanctions is likely to be much stronger in Turkey than in Russia, as the trade dependency is much higher in case of Turkey than vice versa (10-12% of Turkish imports are sourced in Russia, 50% of that is energy, which we expect to remain untouched). With a minimum wage increase by 30% in early 2016, private demand should remain still a growth driver. The inflation **outlook is clouded due to FX weakness and the minimum wage rise, keeping inflation at levels** between 7.5% and 8% in 2016, calling for key rate hikes. The wage hike might add 0.5pp to inflation and a projected oil price recovery in H2 will slow down disinflation. In addition, there are still risks to lira stability in an environment of expected US interest rate hikes. However, Russian sanctions on foodstuff, which will make food cheaper domestically, may partially counterbalance overall inflationary pressure. **External accounts currently profit from lower energy import price**s, which should still be the case over most of next year (though oil prices are recovering in H2). The C/A deficit – the ever-present Achilles' heel of the Turkish economy – narrowed in 2015 to around USD 35 bn or 5% of GDP, likely reaching its low point. We see the C/A deficit in 2016 slightly up given weaker exports. Headwinds in tourism with regards to Russian visitors are likely to have a slightly negative C/A impact as well.

Key economic figures and forecasts

	2011	2012	2013	2014	2015e	2016f	2017f
Nominal GDP (EUR bn)	555.2	612.2	618.8	602.5	643.1	705.2	718.4
Real GDP (% yoy)	8.8	2.1	4.2	2.9	3.5	2.5	3.5
Industrial output (% yoy)	10.1	2.5	3.1	3.6	3.0	2.5	3.0
Unemployment rate (avg, %)	9.1	8.4	9.0	9.8	10.5	10.0	10.0
Nominal industrial wages (% yoy)	8.0	6.0	6.0	n.v.	n.v.	n.v.	n.v.
Producer prices (avg, % yoy)	11.1	6.1	4.5	10.2	6.0	n.v.	n.v.
Consumer prices (avg, % yoy)	6.5	8.9	7.5	8.9	7.6	8.1	7.0
Consumer prices (eop, % yoy)	10.5	6.1	7.4	8.2	8.7	8.2	7.0
General budget balance (% of GDP)	-0.8	-0.3	-1.6	-1.5	-1.5	-1.5	-1.5
Public debt (% of GDP)	39.1	36.2	36.2	35.0	34.0	32.0	33.0
Current account balance (% of GDP)	-9.7	-6.2	-7.9	-5.8	-5.0	-5.7	-5.6
Official FX reserves (EUR bn)	68.0	90.4	95.1	105.2	95.2	108.9	104.3
Gross foreign debt (% of GDP)	39.3	43.1	47.3	50.3	60.2	62.6	58.2
EUR/TRY (avg)	2.34	2.31	2.53	2.90	3.04	3.07	3.32
USD/TRY (avg)	1.68	1.80	1.91	2.19	2.74	3.01	3.02

Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

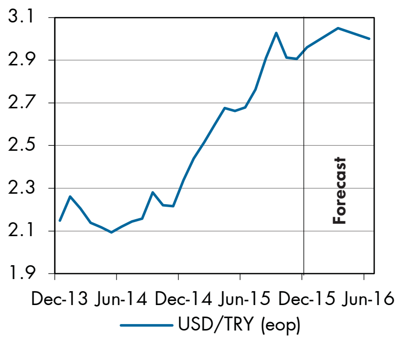
Financial market outlook

The election outcome (the AKP won nearly 50% of votes, securing an absolute majority) led to the most positive outcome for Turkish assets. On the one hand, the outcome supports political stabilisation, while at the same time not leading to the presidential system that would give Erdogan more political power. Even though the political outlook has now brightened up with a stable political constellation, a possible new constitution and an **executive presidency could raise investors' concerns, keeping the Turkish lira under pressure**. Besides security concerns (Syria, Kurds), tensions between Russia and Turkey overshadow investors' confidence regarding Turkey's prospects, supporting TRY volatility. Further US rate hikes would also be a major burden for the highly USD-indebted economy that continues to run a C/A deficit of over 5% of GDP, making it highly dependent on FX inflows. Therefore, volatility might remain high, and there are significant risks that TRY against USD will slide beyond levels of 3.0 or even 3.1 again. Nevertheless, if the promises of PM Davutoglu to bring inflation down to single digits are fulfilled, central bank independence is maintained, and the central bank meets our expectations to hike interest rates, the **Turkish lira could intermittently stabilise or even slightly appreciate**.

In line with our expectations, the gains on the Turkish LCY bond market triggered by temporarily better EM sentiment and election optimism in Turkey proved to be unsustainable. Right after the election in early November, TURKGBs reversed most of the gains produced during October. Geopolitical tensions added to the hardening expectations of a Fed lift-off in December leading to continued capital outflows. The yield curve maintained its slightly inverted shape with the 2y-10y spread tightening by mid-December. Intensifying expectations that the Turkish central bank (TCMB) will respond to US rate hikes with the tightening of the 1-week repo rate added to the upward momentum of front-end yields. Indeed, the TCMB announced that it is likely react to rising US Fed rate hikes by adjusting the 7.50% 1w repo upwards. Against this backdrop, we expect the TCMB to deliver **a total of 200bp in hikes to the 1w repo by Q1 2016** and gradually restore the symmetricity of the surrounding o/n interest corridor. Since the weighted average costs of funding hovered around levels of 8.80% in mid-December, a 1-week repo at 9.50% can be regarded only as moderate tightening of monetary conditions. TURKGB should remain under pressure in the same timeframe before enjoying some relief in the second half of the year which would also mean a normalisation of the yield curve.

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

Exchange rate development



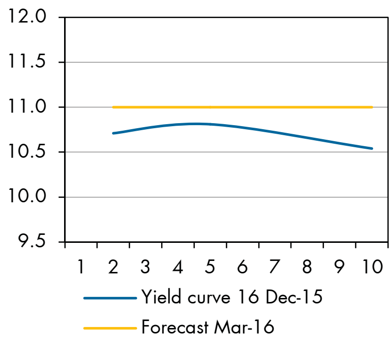
USD/TRY: 5y high 3.06, 5y low 1.39
Source: Bloomberg, Raiffeisen RESEARCH

Exchange rate forecasts

	16-Dec[1]	Mar-16	Jun-16	Sep-16	Sep-16
EUR/TRY	3.24	3.20	3.09	2.98	3.13
Cons.		*3.17*	*3.16*	*3.10*	*3.10*
USD/TRY	2.96	3.05	3.00	2.95	3.10
Cons.		*3.02*	*3.07*	*3.07*	*3.07*

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

TRY yield curve (%)*



** 2y – 10y LCY government bond yields*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts (%)

	16-Dec[1]	Mar-16	Jun-16	Sep-16	Dec-16
Key rate	7.50	9.50	9.50	9.50	9.50
Consensus		*8.75*	*8.80*	*8.85*	*9.30*
1 month[2]	11.76	12.00	11.50	11.00	10.50
3 month[2]	11.70	12.10	11.60	11.10	10.60
Consensus		*11.32*	*11.16*	*10.64*	*11.00*
6 month[2]	11.66	12.10	11.60	11.10	10.60
12 month[2]	11.66	12.20	11.70	11.20	10.70

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

Yield forecasts (%)

	16-Dec[1]	Mar-16	Jun-16	Sep-16	Dec-16
2y T-bond[2]	10.71	11.0	10.5	10.0	9.8
Consensus		*10.5*	*10.5*	*10.7*	*10.8*
5y T-bond[2]	10.81	11.0	10.6	10.1	9.9
10y T-bond[2]	10.54	11.0	10.7	10.3	10.0
Consensus		*10.1*	*10.2*	*10.5*	*10.8*

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

Uninspiring outlook due to tight valuations

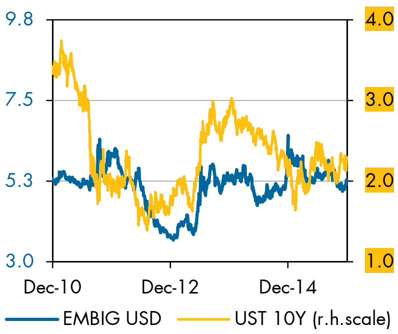
- **CEE segment outstripped emerging market competitors with nearly a 1.8% gain in Q4 2015**
- **Sovereign issuance in 2016 likely to pick up at USD 40-42 bn, up from USD 30.6 bn in 2015**
- **CEE valuations look toppish with spread differential to the Composite EMBIG at -130bp vs. -37bp for 5-year average**
- **EE could be the only sub-region from CEE offering good upside in Q1 2016**

EMBIG USD index & spreads*

	16-Dec		Spread value, bp		
	Index	Spread, bp	Q/Q*	5y min	5y max
PL (A-)	591	100	-17	71	361
LT (A-)	170	109	-14	81	493
KZ (BBB)	171	372	-102	195	617
RO (BBB-)	145	185	-16	141	528
TR* (BBB-)	684	301	-42	156	411
HU (BB+)	295	180	-41	162	726
RU (BB+)	981	296	-47	155	702
HR (BB)	145	329	6	224	657
RS (BB-)	222	267	-48	217	724
BY (B-)	156	590	-165	476	1747
UA (B-)	579	789	-568	393	4281
Europe*	1046	311	-50	-334	485
Africa	821	559	48	239	587
Asia	581	259	-17	134	335
Mid East	469	506	-7	280	533
Latam	573	589	-24	297	628
Global	**668**	**441**	**-22**	**244**	**476**
Inv.grade	**513**	**288**	**-16**	**146**	**324**
BB	**652**	**339**	**-19**	**188**	**500**
B	**1039**	**564**	**8**	**377**	**1099**

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

CEE EMBIG vs. UST 10Y yields, %*



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

Market trends

On a positive note, the CEE Eurobond market delivered healthy gains which largely mirrored the outlook we painted in our quarterly strategy report for Q4. In particular, the CEE segment outstripped emerging market competitors with a nearly 1.8% gain and Latin America earning itself second place with a 1.2% return. Moreover, **the CEE (Europe) EMBIG price index managed to outstrip the Composite EMBIG by nearly 1%** which has not happened since 2008 when the CEE net return briefly peaked at 1.5%. This raises questions about expensive CEE valuations and we will elaborate on this issue in the outlook section.

In line with our anticipation of stronger results for the higher beta markets, Kazakh and Belarus Eurobonds naturally became the biggest winners from the Q4 relief rally with KZ sovereign topping all others with a whopping 6.2% gain. Other CEE markets also ended Q4 in positive territory, contributing to the overall strong result for CEE. **Our buy recommendation for Kazakh, Hungarian, and Romanian Eurobonds paid off** while selling Belarus was a mistake and undercut the overall performance. Regrettably, we had to cancel our relative value trade overweighting Kazakh vs. Russia paper as that went out of the money. In Q4 a few of our predictions on CEE ratings materialised. First of all, Moody's lifted the rating outlook for Russia from negative to stable, becoming the first rating agency to do so which mirrored our own expectation from November. At the same time, both Hungary and Romania saw their rating outlooks upgraded to positive by Moody's while Fitch lifted its outlook on Slovenia to positive as well.

Primary markets

After the strong uplift in Q3, the CEE primary market saw this trend moderate only slightly in Q4. Although overall **Q4 placement climbed to just USD 7 bn or USD 2 bn less compared to Q3**, the issuance geography remained fairly diverse with placements coming from Romania, Poland, Lithuania, and the smaller SEE. Latvia also successfully carried out a debt swap from USD paper into new EUR Eurobond allowing it to bring down FX exposure mismatch and win on cost reduction in the long term. While this swap transaction attracted much attention from market participants, we believe that only euro area-based countries would potentially target similar swaps out of USD paper due to the transaction costs. Still, for 2016 we would expect strong shift from USD to EUR placements at least for CE and SEE sovereigns. In 2015 altogether CEE sovereigns issued USD 30.6 bn equivalent in new paper. **We project the sovereign issuance to pick up at USD 40-42 bn in 2016** taking into account Russia's plan for USD 3 bn sovereign bond and possibly more placements from Poland and Turkey partly also due to smaller issuance in 2015.

Outlook and strategy

As we expected, the Fed's very careful preparation for monetary policy tightening has been a market positive factor. In particular, investors tend to feel less anxious about the upcoming policy tightening as rate hikes would begin from extremely low levels and would be carried at slow speed which should offer plenty of time for market adjustment. This should help to contain Fed tail risk for CEE going forward while the region would continue benefit from very lax ECB policy. At the same time **CEE valuations look fairly toppish compared to EM peers**. In particular, CEE EMBIG return outstripping the Composite index at nearly 1%, in our opinion, should favour some profit-taking as CEE spread differential to the Composite also dips to -130bp compared to -37bp for the 5-year average. So we expect relative CEE weakness both vs. EM competition and other financial markets to re-open in Q1 2016, while the EUR segment could see more stability. At the same time, **we see EE to be the only CEE sub-region offering good upside in Q1** due to likely stabilisation of the rating outlook, especially for Russia and Kazakhstan, and the possible start of easing of EU sanctions against Russia after 31 July 2016 if Minsk-II agreement would be implemented. Although Kazakhstan appears relatively cheap on an absolute rating scale, we would also expect Russia's rating outlook at stable from all rating agencies by the end of 2016. At the same time, we would sell Ukraine on growing concern about the 2016 funding outlook. **In CE we would opt for Poland** as this market was beaten down by political headlines while fundamentals are sound and the fiscal deficit target remains unchanged. In SEE Turkey also offers some upside due to relatively cheap valuations created by the strong dampening effect in Q4 2015 while rating fears could be overstated. On the contrary, we remain sceptical about Croatia's ability to implement necessary reforms after the elections. As difficulties in formation of a new cabinet could limit the policy response, we cannot rule out possible a one-notch downgrade. Currently, all three major rating agencies have Croatia on negative outlook. **We also find Hungary Eurobonds relatively attractive** as the upgrade to investment rating is almost imminent, while no supply of new paper due to government policy to issue only on local market should be technically positive.

Financial analyst: Gintaras Shlizhyus, RBI Vienna

CEE ratings direction

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

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

Benchmark Eurobond forecast and performance

Issue		Rating	Dur.	Spread 16-Dec	Spread Mar-16	Range min.	Range max.	Perf. (%)	Spread Jun-16	Range min.	Range max.	Perf. (%)	Spread Sep-16	Range min.	Range max.	Perf. (%)
PL 3% due 23	USD	A-	6.5	**87**	**80**	78	89	-0.6	**89**	87	98	-3.7	**96**	93	105	-6.1
PL 4.5% due 22	EUR	A-	5.4	**54**	**40**	35	52	0.6	**48**	43	60	-0.2	**53**	48	65	-1.5
LT 6.625% due 22	USD	A-	5.1	**84**	**85**	85	86	-0.3	**94**	93	95	-3.3	**99**	98	100	-5.1
LT 4.85% due 18	EUR	A-	2.0	**30**	**20**	16	35	0.0	**33**	29	48	-0.2	**38**	35	53	-0.5
TR 3.25% due 23	USD*	BBB-	6.4	**236**	**220**	214	277	0.0	**223**	218	280	-2.7	**224**	218	280	-4.6
TR 5.125% due 20	EUR*	BBB-	3.9	**264**	**240**	232	265	0.9	**227**	219	253	1.0	**235**	227	261	0.1
RO 4.375% due 23	USD	BBB-	6.5	**147**	**140**	138	145	-0.5	**157**	154	161	-4.2	**164**	161	169	-6.6
RO 4.875% due 19	EUR	BBB-	3.6	**107**	**100**	98	104	0.2	**106**	104	110	-0.4	**112**	109	115	-1.2
BG 2% due 22	EUR	BB+	5.9	**163**	**155**	149	166	0.3	**157**	152	169	-0.3	**172**	166	183	-1.4
RU 4.5% due 22	USD	BB+	5.5	**184**	**175**	172	181	0.3	**187**	184	193	-3.2	**203**	200	209	-5.7
HU 5.375% due 23	USD	BB+	6.0	**162**	**150**	141	154	0.5	**152**	144	156	-2.7	**155**	147	160	-4.7
HU 3.875% due 20	EUR	BB+	3.8	**130**	**110**	96	117	0.7	**108**	94	115	0.4	**111**	97	118	-0.3
HR 5.5% due 23	USD	BB	6.0	**294**	**320**	311	339	-1.8	**362**	353	381	-7.4	**387**	378	406	-10.6
HR 3.875% due 22	EUR	BB	5.6	**376**	**380**	377	395	-0.4	**407**	404	421	-2.3	**420**	417	434	-4.1
RS 7.25% due 21	USD	BB-	4.8	**273**	**270**	269	272	-0.1	**276**	275	278	-2.0	**280**	279	282	-3.6
BY 8.95% due 18	USD	B-	1.8	**605**	**580**	562	589	0.4	**584**	567	593	-0.2	**640**	622	648	-1.9
UA 7.75% due 27	USD	B-	7.1	**734**	**750**	739	756	-2.2	**850**	839	856	-12.1	**806**	795	811	-11.1

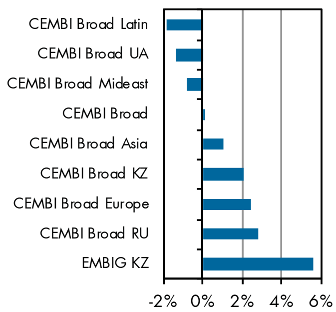
** USD bond spreads to UST notes, EUR bond spreads to German Bunds, Perf. as cumulative return of gross prices up to forecast horizon, countries sorted by S&P rating, Turkey - Fitch rating*
Source: Bloomberg, S&P, Fitch, RBI/Raiffeisen RESEARCH

EE says good bye to the returns of 2015, as 2016 will be weaker*

- **Fundamentals continue to be under pressure but technicals are still supportive**
- **The very strong performance registered by Russia this year limits the potential for further tightening in 2016.**
- **Valuations are seemingly rich at current levels and not all risks are currently priced in**
- **New Issuance should remain weak as we expect limited issuance in Russia at least in H1 2016**

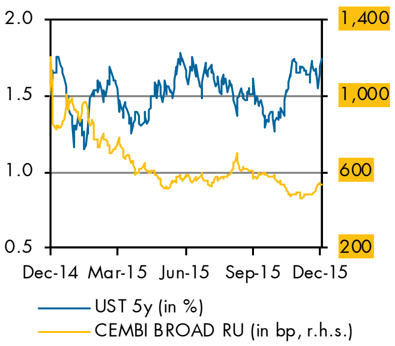
**Kindly note that research is done and recommendations are given only in respect of financial instruments which are not affected by the sanctions under EU regulation no 833/2014 as amended, i.e. financial instruments which have been issued before 1 August 2014.*

Q4 2015 qtd returns



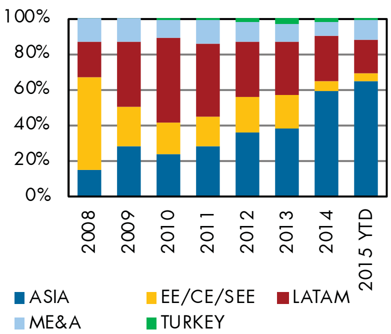
**data are for Broad Series*
5y average annual return in %: CEMBI Broad RU: 6.0, CEMBI Broad Asia: 5.7, CEMBI Broad Mideast: 5.6, CEMBI Broad Europe: 5.2,EMBIG KZ: 5.1, CEMBI Broad: 4.2, CEMBI Broad Latin: 1.8, CEMBI Broad UA: 0.4, CEMBI Broad KZ: -1.3
Source: JP Morgan, RBI/Raiffeisen RESEARCH

UST vs. CEMBI RU Index



UST: 5y high: 2.4 %, 5y low: 0.54 %
CEMBI BROAD RU: 5y high: 1207bp; 5y low: 254bp
Source: Bloomberg, JP Morgan, RBI/Raiffeisen RESEARCH

EM corporate issuance (%)



Source: Bond Radar, RBI/Raiffeisen RESEARCH

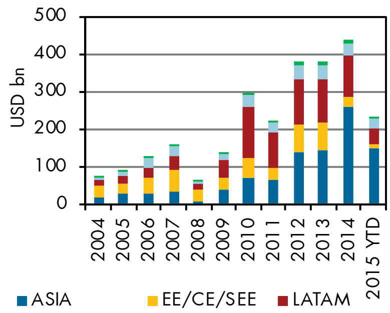
The Russian corporate credit market has been one of the best performers in 2015 (+25% YTD). Among Russian banks, the best performers were VTB, Credit Bank of Moscow and Otkritie (former NOMOS bonds). Amongst Russian corporates, Lukoil and Norilsk Nickel have generated the best returns. Such strong performance was not least driven by the attractive valuations at the beginning of the year 2015, which were the result of currently ongoing geopolitical conflicts, the RUB devaluation and a weak oil price. The underweight position of international investors has been compensated by a strong demand coming from local investors which are on the other hand have been supported by the CBR and its FX REPO facility. In such a challenging environment, corporates have tried to preserve their credit metrics by cutting cost, lower capex, asset sales and debt management. As Russian exporters started to publish stable financial figure due to a weaker RUB, the market remained confident and found even more technical support on the lack of new issuance and increasing buyback programmes. **Kazakh corporate credits also performed strong this year (+11% YTD).** In our view, the performance was mainly driven by positive spillover effects from the Russian credit market. Unlike Russia, Kazakhstan devaluated its currency delayed to the sharp drop in oil price as it pressured the financial performance of exporters such as KazMunayGas. The state-owned company has been on the verge of breaching its leverage covenants on certain loan agreements but the sovereign allocated USD 4.7 bn to KazMunayGas. The performance of the company´s Eurobonds have been further enhanced by the announced buyback programme. In our view, Kazakh corporate debt is unlikely to repeat its trading performance of 2015. **The strongest performance in EE came from Ukraine, where the corporate credit market generated a total return of 27% YTD.** The key driver behind this has also been a distressed debt valuation at the beginning of this year due to the Russian/Ukrainian conflict and the prospect of a sovereign debt restructuring. The successful completion of the Ukrainian debt restructuring was key for the recovery of the country's corporate credits.

The outlook for Russian corporate credits remains subdued - at least for the first quarter in 2016. This year's very strong performance registered by Russia limits the potential for further tightening in 2016. In our view, the same applies to Ukrainian and Kazakh credits. However, Kazakhstan corporate issuers are, from a fundamental perspective, much stronger and we expect the state to remain very supportive of strategically important companies. We also see some improvements amongst Ukrainian corporates, however the uncertainties regarding the restructuring of debt and the ultimate maturity date and outstanding amount of Eurobonds as well as the recapitalisation of major banks prevail. In Russia, the most recent pressure on oil and the new YTD lows have led to wider spreads but these levels still compare richly to the levels experienced during the last sell-off in August 2015. As a result, most credits appear to be expensive and we see only modest value in state-controlled oil & gas companies like Gazprom and Rosneft. Privately owned oil & gas companies like Lukoil seem to be expensive as they have benefit from their investment grade ratings. Russian fertilisers have tightened significantly and we also only see limited upside potential for the metals and mining sector in the near future as a lot of potential risks are currently not priced in. The Russian banking sector is still confronted with a challenging operating environment and banks are facing a mix of fundamental headwinds including the ongoing recession, the slump in domestic consumption and relatively high interest rates and inflation. All of which has translated into an increasing amount of non-performing loans, higher cost of risk and subdued loan growth which pressure asset quality and eroded capital and profitability. The Russian Government has proven its commitment to its major financial institutions and recapitalised the sector with RUB 900 bn of OFZs and another conversion of RUB 280 bn of deposits at VEB into preferred shares. We expect government support to remain the key factor for the performance of the sector and, from current levels; we can only envision that a couple of bonds issued large banks (i.e. VEB) are able to outperform their respective benchmark indices.

New Eurobond issuances out of Russia will also remain subdued at least in the first half of 2016. Sanctions still prohibit large banks from tapping international capital market and amongst corporates, the lack of economic growth and recent cuts in capex have not heightened demand for fresh credits. Furthermore, Russian banks have an excess of FX liquidity which has been further increased by the CBR´s FX repo facility as it had in turn led to several large bond buyback programmes (i.e. VTB). During the second half of 2016, sanctions could be gradually phased out and issuances might start to pick up. In 2015, overall EM corporate issuance for the quarter to date (qtd) has amounted to about USD 36 bn, which represents less than a third of the activity registered during Q4 2014. The drop stemmed mainly from muted issuance from Asia and LATAM during the last quarter this year. Still, we expect supply from Asian banks to continue to play a key role in the EMs in 2016. Issuance in EE also declined (-9% yoy) to less than a tenth of total EM corporate issuance volume. Still, some Russian corporates managed to tap the market in Q4 and on 6 October, Norilsk Nickel, the largest global nickel and palladium producer, sold a 7 year USD 1 bn Eurobond at 6.625%. Demand for this benchmark primary issuance exceeded USD 4 bn. Just a few days later, Gazprom, which issued its last benchmark Eurobond in November 2014, followed suit with a EUR denominated 3 year Eurobond worth EUR 1 bn. Gazprom was even able to further cut its guidance from 4.75%-4.875% to 4.625% and the bond landed right on its secondary market curve. The latest corporate which managed to place a benchmark bond was Evraz with a USD 750 mn 5-year Eurobond at 8.25%. Amongst the financials, only Alfa Bank, one of the strongest privately and non-sanctioned Russian banks, was able to place a 5-year USD 500mn Eurobond at 5.00% in mid-November.

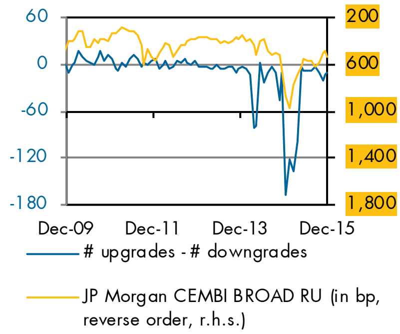
Financial analysts: Michael Ballauf, RBI Vienna

EM corporate issuance



Source: Bond Radar, RBI/Raiffeisen RESEARCH

Rating drift in Russia



CEMBI BROAD: 5y high: 571bp; 5y low: 265bp
Source: Bloomberg, JP Morgan, RBI/Raiffeisen RESEARCH

Selected EE Eurobonds

Issuer	ISIN	Maturity	Yield in %
Alfa Bank	XS0544362972	25/09/17	4.8
Evraz	XS0618905219	27/04/18	7.2
Gazprom	XS0708813810	23/01/21	6.1
Sberbank	XS0799357354	28/06/19	5.1
VimpelCom	XS0587031096	02/02/21	7.3

Source: Bloomberg, RBI/Raiffeisen RESEARCH

Liquidity conditions remain favourable for the ATX

- **ECB measures should have a positive effect**
- **Valuations decline, solid earnings growth expected**
- **"Buy" recommendation for the first quarter**

Value matrix*

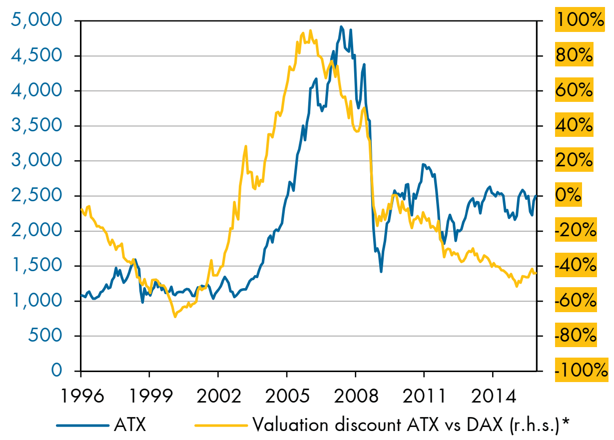
Domestic business activity		2	(2)
Exports	OECD – excl. Eastern Europe	2	(2)
	Eastern Europe	2	(2)
	Asia	3	(3)
Company earnings		2	(2)
Key sectors		2	(2)
Valuation – P/E-ratio		2	(2)
Interest rates / yields		2	(1)
Exchange rates		1	(1)
Foreign equity markets		1	(1)
European liquidity		1	(1)
Technical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

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

During the fourth quarter, the performance of the Austrian equity market was positive on the whole. The ATX was supported by mounting hopes that the ECB would take more aggressive action. Even though decision-makers around Mario Draghi were unable to live up to the market's exaggerated expectations, the effect on prices has still been positive on the whole up to now. Furthermore, the fading worries about economic growth in China played a major role. Against this backdrop, it was also the performance of a few index heavyweights which pulled the ATX higher in recent months.

As for the coming quarter and year, we expect to see the domestic equity market supported by the economic developments in the euro area, amongst other things. It appears that the recovery in the euro area is continuing. While no one should expect a strong acceleration in growth, we do see this upturn as being supported on a broad basis. A modest upswing in economic activity has also been registered in Austria in recent quarters. This trend should continue on a similar course in 2016. At least this is what is suggested by the available leading indicators. One of the main reasons for this is the tax reform, which should bolster private consumption. Moreover, we expect to see positive momentum from investment activity. Based on these assumptions, we project that Austrian GDP growth will reach 1.8% in 2016.

ATX shows valuation discount



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

The situation in Eastern Europe still requires a more differentiated view. Dynamics are expected to remain flat in Russia during the coming year as well. That said, one positive aspect is that the recession is gradually coming to an end. By contrast, the economic performance of the CE area remains solid.

The ECB will presumably continue to have a major influence. Although there are probably no plans for additional monetary policy easing, the steps taken by the ECB so far have ensured that excess liquidity will increase substantially in 2016 and even beyond that. Sooner or later,

Sector structure of the ATX

Sector	Company	Weight
Financials	BUWOG, CA Immobilien, conwert, Erste Group, Immofinanz, Raiffeisen Bank International, Uniqa, Vienna Insurance Group	46.5%
Industrials	Andritz, Flughafen Wien, Oesterreichische Post, Wienerberger, Zumtobel	22.9%
Energy	OMV, SBO	14.4%
Basic materials	Lenzing, RHI, voestalpine	11.7%
Telecom	Telekom Austria	2.0%
Utilities	Verbund	2.5%

Source: RBI/Raiffeisen RESEARCH, Raiffeisen Centrobank, Vienna Stock Exchange this environment should have a beneficial effect on small and medium-cap companies, and most of the companies on the Vienna stock exchange fall into this category.

In principle, the conditions discussed above should continue to have a supportive effect on corporate earnings. All in all, the latest round of corporate results were mildly positive. Results for the heavyweights in the ATX were mixed, on the other hand. While the market took a positive view of the data released by Erste Group and Andritz, OMV had to report significant write-downs in October already, due to the major decline in oil prices. voestalpine roughly met the expectations. On the whole, guidances were marked by a certain degree of caution. For example, OMV continues to expect pressure on refinery margins, while voestalpine is anticipating generally weak demand from the oil and gas industry, and tough price negotiations are also expected with carmakers. At Andritz, the guidance still calls for rising sales and profits, but the company warned about increasingly difficult conditions in China and in the emerging markets in general.

All in all, we stick to our assumption of 8.8% growth in adjusted aggregated earnings for the companies in the ATX for 2016. Amongst other things, the companies listed in the index should profit from the projected depreciation of EUR versus USD. Looking at valuations, the situation has eased somewhat again recently. In particular, this was also due to the latest declines in prices. At the moment, the ATX companies show a P/E ratio of roughly 11.7 for 2016. Thus, the ATX also exhibits a discount compared to many of the other established equity markets in Western Europe. Compared to the CE markets (e.g. PX, WIG30, etc.), however, there was no major deviation.

Summary: We are basically positive about the prospects for the performance of the ATX in the first quarter. Although there is currently some disappointment about the ECB's decisions in early December, sooner or later the measures taken by the central bank should have a positive impact on the equity markets. In particular, prospects for rising excess liquidity in the euro area will create beneficial conditions for small and medium-cap companies in our opinion, as this will specifically limit systemic risks and because alternatives such as bonds continue to be expensive. As the valuations on the ATX have now returned to lower levels and we expect to see solid growth rates for earnings going forward, we have a "Buy" recommendation for the first quarter.

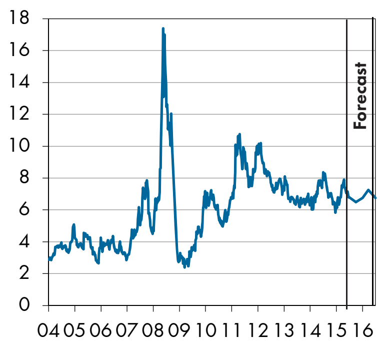
Financial analyst: Johannes Mattner, CFA, RBI Vienna

Fair value of ATX[1] – Dec 2015

	Bond yields (10y)		
EY-BY**	**1.25%**	**1.50%**	**1.75%**
7.50%	2,335	2,270	2,208
7.25%	2,403	2,335	2,270
7.00%	2,476	2,403	2,335
6.75%	2,553	2,476	2,403
6.50%	2,636	2,553	2,476
6.25%	2,724	2,636	2,553
6.00%	2,818	2,724	2,636
5.75%	2,918	2,818	2,724
5.50%	3,026	2,918	2,818
5.25%	3,143	3,026	2,918
5.00%	3,268	3,143	3,026
4.75%	3,405	3,268	3,143
4.50%	3,553	3,405	3,268
4.25%	3,714	3,553	3,405

[1] based on the expected earnings for 2015/2016 (i.e. 204.3 index points)
[2] earnings yield less bond yield
Source: RBI/Raiffeisen RESEARCH, Raiffeisen Centrobank

Earnings yield* less bond yield



** earnings yield = E/P; based on 12-month forward earnings*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH, Raiffeisen Centrobank

Valuation and forecasts

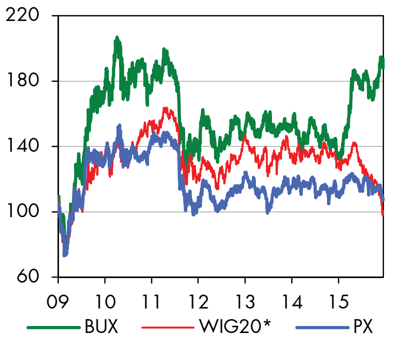
	16-Dec[1]	Dec-15	Mar15	Sep-16	Dec-16
12-months forward earnings	204.3	191.8	195.9	200.1	204.3
Bond yield forecast	0.87	1.00	1.05	1.25	1.35
Earnings yield less bond yield (EY-BY)	**7.68**	**6.50**	**6.75**	**7.25**	**6.75**
ATX-forecast based on EY-BY		2557	2512	2354	2522
ATX-forecast	**2,388.9**	**2,550**	**2,520**	**2,400**	**2,550**
Expected price change		6.7%	5.5%	0.5%	6.7%
Range		2,250-2,650	2,250-2,650	2,250-2,650	2,250-2,650
P/E based on 12-month forward earnings	11.7	13.3	12.9	12.0	12.5

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

Potential for CEE stock markets to catch up

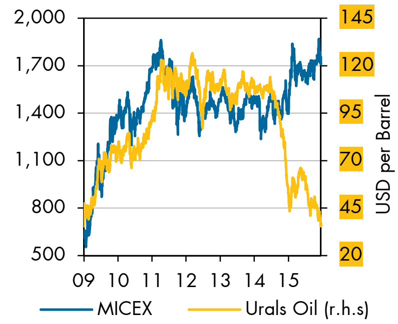
- **No lasting impact anticipated from the interest rate reversal in the USA**
- **Most CEE indices are moderately undervalued**
- **Oil price expected to rebound in 2016**
- **Russian-Turkish tensions as a temporary negative factor**

CE core equity indices



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

MICEX vs oil price



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

The development of the CEE equity markets was quite mixed, both in the fourth quarter and in 2015 as a whole. While very positive performance was seen in Hungary and Russia in particular, the other leading indices we monitor showed results which were extremely modest, by international standards as well. Earlier topics such as Greece, the Russia-Ukraine conflict, and possible economic slowdown in the emerging markets were hardly issues on the stock markets during the period under review. Investors are currently focusing more on central bank policies, with the ECB expected to maintain its ultra-expansive monetary policy for the foreseeable future. Accordingly, it should be possible to boost margins at European companies, thanks to the low refinancing costs and the subdued wage pressure. In the USA, the first interest rate hike since 2006 occurred in December, and the US central bank headed by Yellen will opt for an extremely cautious path of further interest rate increases in 2016. Another issue which is a market-mover is the low commodity prices, in particular the price of oil, which can be seen as supporting private consumption. The persistently high liquidity as well as our forecast of solid economic development provide a supportive environment for European equities, which also includes the CEE region due to the close economic ties. In 2015, the dominant factors for the **Russian equity market** were geopolitical tensions and the slump in the oil price. In relation to European sanctions against Russia stemming from the Ukraine conflict, we see a tangible chance for gradual dismantling and easing during H2 2016, after the formation of a military alliance against IS in Syria. By contrast, there are still no signs of the tensions with Turkey easing. This country is an important buyer of Russian gas, accounting for 13% of exports and also controls just over one third of Russian gas exports via the Bosporus and Dardanelles. The decision to stop work on the Turkish Stream Pipeline, which would have made it possible to circumvent the shunned transit country Ukraine starting from 2019, undermines the intentions of Russia and Gazprom in terms of diversifying transport routes. Due to global oversupply, there are still no signs of a rebound in the price of crude oil, which is a key factor for the Russian equity market. Nevertheless, with US supply declining (shale oil) and deceleration in investment growth, as well as a stronger recovery in demand due to the low price levels, a substantial increase in the oil price should begin in 2016 (Ø 2016f: USD 56 per barrel). One positive factor for Russian export-oriented companies in the energy and materials sector is the weak RUB exchange

Value matrix stock markets

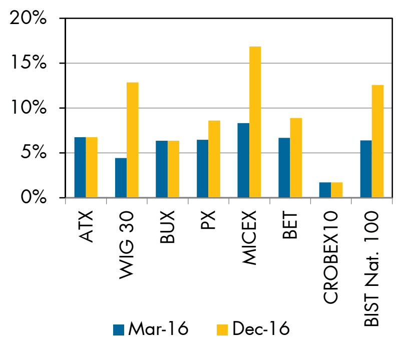
	PL		HU		CZ		RU		RO		HR		TR	
Politics	4	(4)	2	(2)	2	(2)	4	(4)	3	(2)	3	(3)	4	(4)
Interest rate trends	2	(2)	1	(1)	1	(1)	3	(3)	2	(2)	2	(2)	4	(3)
Earnings outlook	4	(4)	1	(2)	4	(4)	3	(2)	2	(1)	2	(2)	1	(2)
Key sectors	4	(4)	2	(2)	2	(2)	2	(1)	2	(2)	2	(2)	2	(2)
Valuation (P/E)	2	(2)	2	(2)	2	(2)	1	(1)	2	(2)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

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

rate, and thus we believe that corporate earnings enjoy a solid footing despite the economic stagnation. In conjunction with the attractive valuation, all in all we expect the performance of the MICEX to be positive in 2016, as a result of a recovery in the oil price, political accommodation with Europe, and no further escalation of tensions with Turkey. **Buy**.

The **Polish** stock market indicator WIG 30 suffered a bitter decline in Q4, bringing the negative performance since the beginning of the year 2015 to 19%. However, this is not due to the country's solid economic performance (projected GDP growth of 3.6% for 2016) and has much more to do with the policies of the new single-party government formed by PiS. Initial public discussions and the draft law on the new wealth tax (0.39% for banks and 0.6% for insurers in terms of the balance sheet total) triggered intense pressure on the Polish financial sector, which is heavily weighted in the index (34%). Furthermore, the government's ideas about a financial participation of the utilities sector in the strongly loss-making mining companies also resulted in significant selling pressure, even though the actual plans are not even on the table yet. Looking at fundamentals, we project an aggregate decline in earning of 10.5% in 2016 and see the valuation of this market with an expected 2016 P/E ratio of 11.9 as being modest by historical standards. We maintain a cautious stance for the first quarter of 2016, especially with an eye to the existing political uncertainties, but we also expect to see the elevated risk premiums gradually priced out of this market as the year progresses. **Buy**.

Expected index performance



Source: RBI/Raiffeisen RESEARCH

Indices in performance comparison

	2006	2007	2008	2009	2010	2011	2012	2013	2014	16-Dec-15[1]
ATX	21.7%	1.1%	-61.2%	42.5%	16.4%	-34.9%	26.9%	6.1%	-15.2%	10.6%
BUX	19.5%	5.6%	-53.3%	73.4%	0.5%	-20.4%	7.1%	2.2%	-10.4%	42.4%
WIG 20[2]	23.7%	5.2%	-48.2%	33.5%	14.9%	-21.9%	20.4%	-7.0%	-3.5%	-22.1%
PX	7.9%	14.2%	-52.7%	30.2%	9.6%	-25.6%	14.0%	-4.8%	-4.3%	-1.8%
MICEX	67.5%	11.5%	-67.2%	121.1%	23.2%	-16.9%	5.2%	2.0%	-7.1%	25.6%
BET	22.2%	22.1%	-70.5%	61.7%	12.3%	-17.7%	18.7%	26.1%	9.1%	-4.1%
CROBEX	62.2%	63.2%	-67.1%	16.4%	5.3%	-17.6%	0.0%	3.1%	-3.1%	-4.5%
BIST Nat. 100	-1.7%	42.0%	-51.6%	96.6%	24.9%	-22.3%	52.6%	-13.3%	26.4%	-15.0%
CECE Composite Index	14.7%	10.5%	-53.7%	40.5%	15.7%	-29.1%	25.7%	-9.6%	-6.0%	-15.9%
DAX	22.0%	22.3%	-40.4%	23.8%	16.1%	-14.7%	29.1%	25.5%	2.7%	6.8%
Euro Stoxx 50	15.1%	6.8%	-44.4%	21.1%	-5.8%	-17.1%	13.8%	17.9%	1.2%	3.2%
S&P 500	13.6%	3.5%	-38.5%	23.5%	12.8%	0.0%	13.4%	29.6%	11.4%	0.7%
MSCI World	13.5%	2.8%	-40.1%	22.8%	7.8%	-7.6%	13.1%	26.3%	7.7%	0.4%

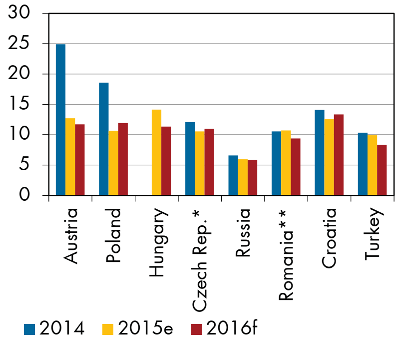
In local currency
[1] 11:59 p.m. (CET)
[2] Due to the short data history of the WIG 30 index we still use the WIG 20
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

Stock market indicators

	Long-term earnings growth	Earnings growth			Price/earnings ratio			Dividend yield
		14	15e	16f	14	15e	16f	15e
ATX	4.3%	-43.8%	95.7%	8.8%	24.9	12.7	11.7	2.7%
WIG 30	3.1%	-40.2%	74.1%	-10.5%	18.6	10.7	11.9	4.5%
BUX	3.6%	n.a.	n.a.	25.1%	n.a.	14.2	11.3	3.3%
PX*	3.8%	1.9%	14.2%	-3.6%	12.1	10.6	11.0	6.6%
MICEX	3.7%	-42.0%	11.1%	1.5%	6.6	5.9	5.9	5.3%
BET**	5.1%	-11.0%	-1.5%	14.0%	10.5	10.7	9.4	5.7%
CROBEX10	2.1%	-20.8%	-5.7%	12.2%	14.1	12.6	13.3	2.5%
BIST Nat. 100	4.9%	2.7%	4.0%	19.2%	10.3	9.9	8.3	3.1%

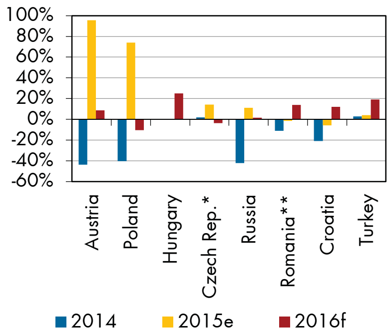
** Czech Rep. (PX): excl. Central European Media Enterprises, New World Resources and Erste Group*
*** Romania (BET) excl. Fondul Proprietatea*
Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

P/E ratios in comparison



** Czech Rep. (PX): excl. Central European Media Enterprises, New World Resources and Erste Group*
*** Romania (BET) excl. Fondul Proprietatea*
Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

Earnings growth



** Czech Rep. (PX): excl. Central European Media Enterprises, New World Resources and Erste Group*
*** Romania (BET) excl. Fondul Proprietatea*
Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

The decline of the **Czech leading index PX** was notably due to the negative impact of the index heavyweight CEZ, as the company's unplanned and already lengthy shut-down of reactors at the Dukovany nuclear power plant will likely result in high expenses. Welding joints in the 30-year old plant did not meet the quality criteria when investigated and resulted in a significant fall in the share price. On the other hand, there was good news from the Czech economy, as the latest data showed that Czech GDP rose by 4.5% in the third quarter. The latest announcement of the Czech central bank is yet another factor which will probably lend support to the Czech corporate sector. The monetary authorities stated that the time frame for intervention in the currency market had been extended and should last until at least the end of 2016. On an index basis, this translates to an expected aggregate P/E ratio of 11.0 for 2016, which is moderate by historical standards. In addition, a further recovery of the European economy should benefit export-oriented Czech companies. **Buy**.

The **Hungarian** stock market index **BUX** was able to post another gain in the fourth quarter and thus held on to its top spot in the CEE ranking with a gain of 42% since the beginning of the year 2015. The very solid performance by this leading index is probably due to the reduction of the bank levy confirmed for 2016 and the lack of new unorthodox fiscal policy measures up to now. Moreover, we project that the MNB will indeed move to reduce the key rate again in the first quarter of 2016, lowering it to 1%. Some short-term support may also come at the beginning of 2016 in particular, if there is an upgrade to an investment grade rating (Moody's has already changed its rating outlook to positive). The expected aggregate earnings growth rate for the index in 2016 is 25%, which results in a moderately undervalued index P/E ratio of 11.3. While we still have a positive view of the first quarter of 2016, we do not expect to see local outperformance for 2016 as a whole. **Buy**.

Following a temporary recovery prior to the snap elections, in which President Erdogan's AKP regained an absolute majority, the **Turkish** leading index **BIST National 100** headed steeply lower from the end of November. The downing of a Russian bomber by the Turkish military increased worries about a long-term deterioration in economic relations. Both countries have much to lose. In 2014, Turkey obtained 55% of its natural gas from Russia, and in a worst case scenario, a complete suspension of relations could cost Turkey USD 9 bn, equivalent to 0.3% to 0.5% of its economic output, according to the government in Ankara. Nonetheless, we believe that the current diplomatic crisis is reflected in the prices and

Index estimates

	16-Dec[1]	Mar-16	Jun-16	Sep-16	Dec-16	Recommendation
ATX	2,389	2,550	2,520	2,400	2,550	**BUY**
Performance		6.7%	5.5%	0.5%	6.7%	
Range		2,250-2,650	2,300-2,700	2,250-2,650	2,300-2,650	
WIG 30	2011	2,100	2,180	2,170	2,270	**BUY**
Performance		4.4%	8.4%	7.9%	12.9%	
Range		1,900-2,200	1,950-2,300	1,950-2,300	2,050-2,400	
BUX	23693	25,200	24,800	24,000	25,200	**BUY**
Performance		6.4%	4.7%	1.3%	6.4%	
Range		22,500-27,000	22,000-26,500	21,500-26,000	22,500-27,000	
PX	930	990	990	970	1,010	**BUY**
Performance		6.5%	6.5%	4.3%	8.6%	
Range		850-1050	850-1050	800-1050	900-1100	

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

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

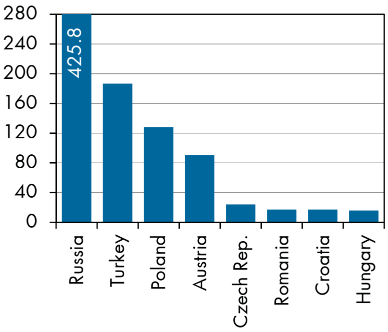
that there will be no further escalation of the situation. Gradual lifting of the sanctions on Iran, however, will probably be positive for Turkish companies, which show very favourable valuations based on the 2016f P/E ratio of 8.3 in relation to the BIST National 100. In light of the low oil price (Turkey has been able to reduce its energy costs in USD terms by about one third compared to the previous year), we see good support for the economic recovery (2016f GDP: +2.5%). All in all, the Turkish stock exchange should post a positive performance in 2016, despite some periods with tensions. **Buy**.

The **Romanian** leading index **BET** was hit by the financial sector in Q4. Following the surprising resignation by Prime Minister Ponta, the latest draft law for the repayment of mortgage loans triggered some uncertainty amongst market participants. Financial stocks came under pressure in particular, as the new law offers mortgage borrowers the option of paying off their loan with the encumbered object. Furthermore, the credit institution has no recourse to the other assets of the borrower. Over the long term, this could lead to banks involuntarily acquiring unwanted real estate holdings. Companies from the energy sector were exposed to even more pressure, due to the oil price. Improvement should be seen again in this sector (weighted at 40% in the index) with the rebound in the oil price which we expect to see in 2016. Furthermore, the good economic conditions (2016f GDP: +4.0%) and the attractive valuation by historical standards (2016f P/E ratio: 9.4) should offer good conditions for equities. **Buy**.

The **Croatian** stock market index **CROBEX 10** presented itself, in the wake of the overall negative trend, in Q4 also with a slight decline. For the first time in Croatia's history, the general elections held on 8 November 2015 did not yield a clear winner, and the situation remains unclear in terms of forming a new government. As long as there is a lack of clarity about a new government and its plans for the necessary structural reforms, uncertainty will remain high among investors. There was also less good news from the stock market in Zagreb itself: in a year-on-year comparison, the average daily trading volume in the two months of October and November declined by 4.6%. Due to the ballooning public debt, there will hardly be any room for economic stimulus programmes by the government in 2016. In conjunction with the slack economic performance (2016f GDP: 1.0%), we thus see limited upside potential for the CROBEX10. **Hold**.

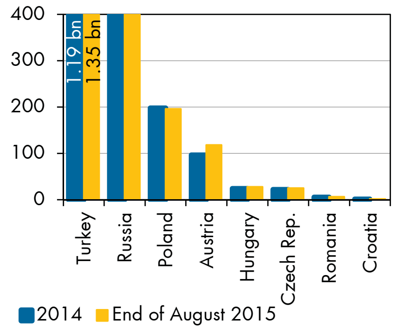
Financial analysts: Aaron Alber, Andreas Schiller, Christoph Vahs; RBI Vienna

Market capitalisation overview



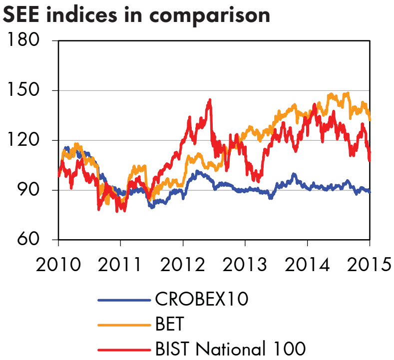
In EUR bn; end of November 2015
Source: FESE, WFE, ZSE, RBI/Raiffeisen RESEARCH

Avg. daily turnover (EUR mn)



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

SEE indices in comparison



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Index estimates

	16-Dec[1]	Mar-16	Jun-16	Sep-16	Dec-16	Recommendation
MICEX	1,754	1,900	1,950	2,000	2,050	**BUY**
Performance		8.3%	11.2%	14.0%	16.9%	
Range		1,550-2,000	1,600-2,050	1,700-2,100	1,800-2,200	
BET	6795	7250	7250	7100	7400	**BUY**
Performance		6.7%	6.7%	4.5%	8.9%	
Range		6,400-7,600	6,400-7,600	6,200-7,500	6,500-7,800	
CROBEX10	983	1000	980	950	1,000	**HOLD**
Performance		1.7%	-0.3%	-3.4%	1.7%	
Range		920-1050	900-1050	900-1000	900-1050	
BIST National 100	72,832	77,500	78,000	77,000	82,000	**BUY**
Performance		6.4%	7.1%	5.7%	12.6%	
Range		65,000-80,000	70,000-83,000	70,000-82,000	75,000-88,000	

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

Raiffeisen RESEARCH

Stock Markets: Bullish Impulse

ATX

.ATX, 17.12.2015 07:15 a.m. CET, 5y high: 3,001, 5y-low: 1,653
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH.

ATX

Last: 2,388 NEUTRAL

The recent sell-signal at 2,360 had not been followed by the respective decline towards 2,275 – 2,000. A bullish signal at 2,430 might now trigger an advance towards 2,520, the major resistance a crossing of which would signal an increase towards 2,660 and 2,730 (-> 3,130). Else: a failure would result in a hint on a decline towards 2,000.

Position:

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

BIST National 100

.XU100, 17.12.2015 07:45 a.m. CET, 5y high: 93,179, 5y-low: 49,622
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

BIST National 100

Last: 72,831 NEUTRAL

The Triangle within range 69,790 – 90,730 (blue lines) is being tested again at the lower band. A sell-signal at 69,640 (-> 65,230 – 60,520) thus cannot be fully ruled-out, yet neither a rebound beyond 75,330 (-> 84,355 – 90,730).

Position:

Buy 75,330 -> 84,355– 90,730
Sell 69,640 -> 65,230 – 60,250

BUX

.BUX, 17.12.2015, 07:55 a.m. (CET), 5y high 24,451, 5y low 14,930
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

BUX

Last: 23,639 BULLISH

The buy-signal at 21,310 has been triggered same as bullish confirmation at 23,050 been provided which is why an advance towards 24,507 – 25,858 should be expectable. Now, the recent bounce-back should have ended and the stop that is still at 22,900 be trailed soon.

Position:

Buy -> 24,507 – 25,858
Stop 22,900

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

CROBEX 10

Last: 985 NEUTRAL

The upward-trend in effect since 19/06/2012 is being tested-out the second time. A setback to about 965 would still be in line with bullishness, yet in order to give it the looks of a bullish reversal a first buy-signal at 1,005 would be required same as bullish confirmation at 1,020; this then would indicate a rebound towards 1,040, if not 1,090.

Position:

Buy	1,005	->	1,020 – 1,090
Sell	970	->	930 – 900

CROBEX

.CROBEX10, 17.12.2015, 08:05 a.m. CET, 5y high: 1,283, 5y-low: 879
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

MICEX

Last: 1,773 ~BULLISH

For a reliable bullish reversal an advance to in beyond of 1,785 (-> 1,875 – 2,040) is required, yet likely with regard to this recent bottoming-up from the trend-channel. Nevertheless in case of a failure at 1,785 already a decline towards 1,620 would instead gain in likelihood.

Position:

Short	-> 1,785 – 1,875	
Stop	1,730	

MICEX

.MCX, 17.12.2015 09:15 a.m. CET, 5y high: 1,868, 5y-low: 1,237
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

WIG 30

Last: 2,028 BEARISH

1,959 is the last support before another decline towards 1,760 – 1,640 that for now seemingly has held firm. As a result a rebound to in beyond of 2,115 should be high in likelihood and the respective bullish confirmation at 2,060 (-> 2,150 – 2,215) thus be expectable.

Position:

Buy	2,060	-> 2,150 – 2,215
Stop	1,959	

Financial analyst: Robert Schittler, RBI Vienna

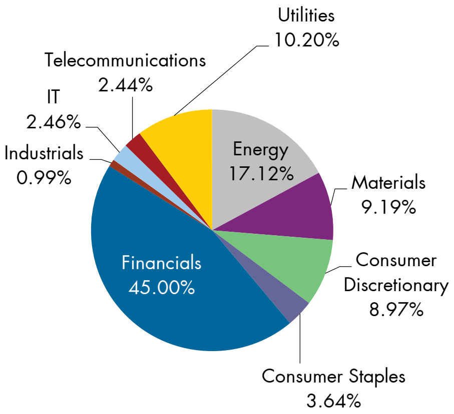
WIG 30

.WIG30, 14.12.2015 12:50 p.m. CET, 5y high: 2,775, 5y-low: 2,272
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings in comparison

Sector weightings Poland, WIG 30

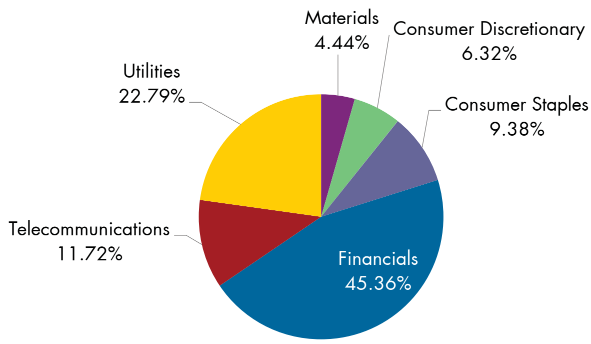
Dom. market cap.: EUR 128,331 bn (Source: FESE; 30-September15)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Czech Republic, PX

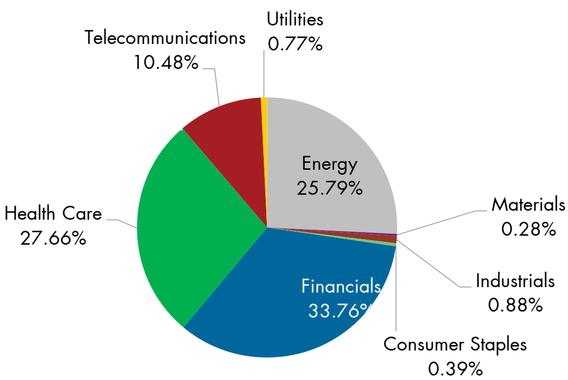
Dom. market cap.: EUR 24,187 bn (Source: FESE; 30-September15)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Hungary, BUX

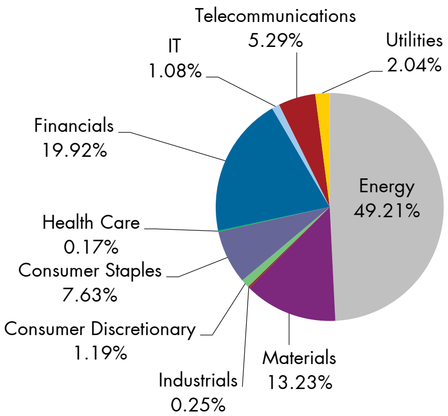
Dom. market cap.: EUR 16,094 bn (Source: FESE; 30-September15)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Russia, MICEX

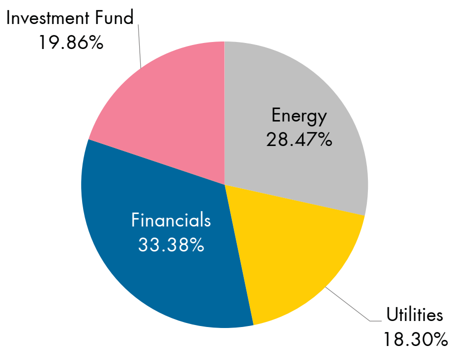
Dom. market cap.: EUR 425,786 bn (Source: WFE; 30-September15)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Romania, BET

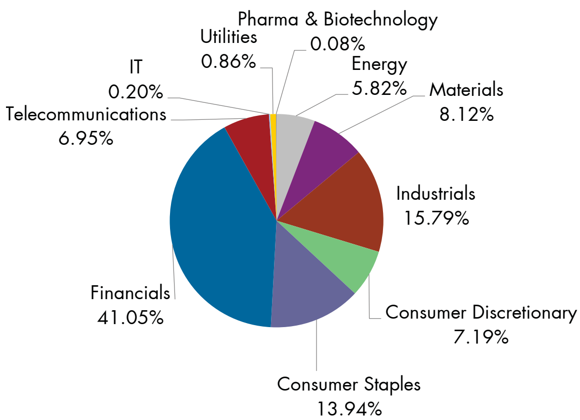
Dom. market cap.: EUR 17,367 bn (Source: FESE; 30-September15)



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Sector weightings Turkey, BIST National 100

Dom. market cap.: EUR 186,695 bn (Source: FESE; 30-September15)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Banks: Macro tailwinds versus regulatory headwinds

- **Regulatory and tax uncertainties slowly fading in Poland**
- **Mortgage scheme uncertainties persist in Romania and Poland; EBA stress test on the agenda for 2016**
- **We confirm BUY rating on Komercni Banka and recommend adding positions in BZ WBK, Pekao SA and Alior**

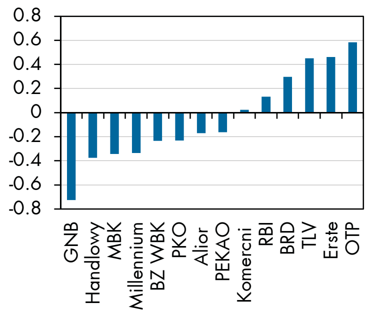
The year 2016 might become a mixed bag for banks. The sector should benefit from a continued euro zone recovery resulting in more dynamic loan momentum, below-cycle risk costs and potential positive migration effects on RWA weights. However, the low interest rate environment will likely continue to exert pressure on interest margins. In addition, stress-test results (to be published in Q3) as well as additional capital rules (fixing SREP ratios and Basel 4 framework), bank tax and FTT discussions, FX mortgage schemes (e.g. in PL and RO) and MIFID 2 requirements will keep banks busy on the regulatory/political front.

In the year to date, the market capitalisation of Polish banks in our universe has dropped by ca. PLN 60 bn since mid-May, when the political turbulences started. We estimate the aggregated valuation impact from the new bank tax (39 bps with 20% assumed re-pricing) at ca. PLN 30 bn, while the remaining PLN 30 bn should reflect large part of the assumed PLN 22 bn burden from the recently presented CHF bill, lower key rates and the one-off charge in connection with BFG. With the regulatory/tax burden fog gradually lifting in Poland we get more constructive on Polish banks, especially on BZ WBK (trading at par, dividends), PEKAO (safe dividends, healthy growth, though stretched multiple) and ALIOR (long-term value should overshadow short-term capital-related risks). We remind of the material negative one-off charges that will heavily impact the sector's net profit in Q4 15 coming from the reimbursement of the bankrupt cooperative bank SK Bank Wolomin and the contribution to the new Mortgage Distressed Fund.

While in Hungary the government has finally cleared the path towards an unconditional lowering of the bank tax in 2016 and 2017, in Austria the discussion on reducing the double burden from bank tax and resolution fund contribution is still pending. Among non-Polish banks we favour Komercni Banka ahead of the dividend season given a dividend yield of above 6% at current levels and the strong loan growth prospects for 2016, which should offset the ongoing NIM pressure. In Romania, uncertainty related to the practice of mortgage walkaway should linger into Q1 16 and might weigh on share prices for Romanian banks as well as on Erste Group. On the other hand, we expect that robust economic growth should help banks' results. For both names in our coverage universe we assume 2015 dividend pay-out ratios above 50%, partially driven by the extraordinary nature of the 2015 results.

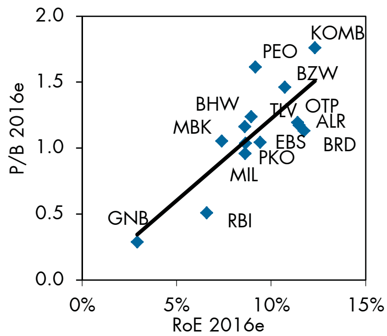
Financial analysts: Jovan Sikimic, Stefan Maxian

YTD stocks performance (in %)



Source: Bloomberg

P/B - RoE 2016e regression



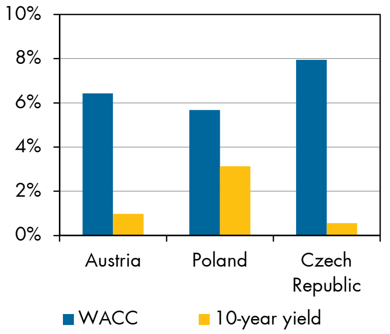
Source: Raiffeisen Centrobank estimates, Bloomberg consensus

Raiffeisen RESEARCH

Utilities: The mood is still not good

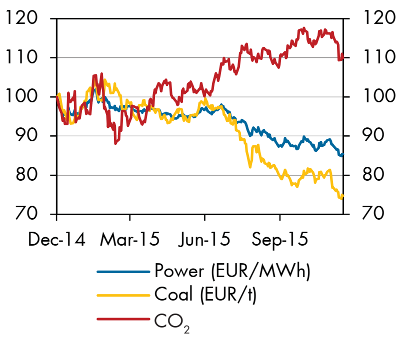
- **Pressure on primary energy markets and electricity prices continues; regulatory constraints still a burden**
- **Dividend yields are high, but results outlooks are mostly negative, esp. in AT/CE3**
- **BUY recommendations: EVN, CEZ, Energa, Electrica, InterRAO**

Wide spread differences*



** between regulated return and risk-free-rate*
Source: Regulators, Bloomberg

CO_2 strength lends hardly any support



Source: Bloomberg , indexed to 100

Even though the average performance of European utilities was about in line with the overall market in the past quarter, the year that is drawing to a close has brought another disappointment. For example, the EuroSTOXX Utilities trailed the market by some 10%p, depressed above all by the German utilities RWE and E.ON, both of which are facing a split-up of their businesses into market-oriented and regulated parts. While such harsh measures are not on the table in our coverage universe, our companies are still affected by the continuing weakness of energy markets and the massive interventions from regulatory bodies and governments.

The crisis of the Polish coal industry has been the core issue for local utilities. They will probably have to make a major contribution in order to rescue that ailing industry – either via takeovers of state-owned companies with insufficient funds or by bearing the brunt of artificially inflated coal prices. The problem has been a major concern for almost twelve months, but neither the new nor the old government has been able to hammer out a final restructuring concept yet. As a result, a sustainable recovery of the severe share price declines is not likely before April 2016 at the earliest.

In addition, declining government bond yields and the regulator's efforts are exerting pressure on grid tariffs, so that even more regulated companies anticipate weaker results (not only in Poland, but also in Romania). Elsewhere, especially in Austria (double-digit tariff hikes) and the Czech Republic (higher WACC), the trend points in a different direction, because the grid expansion of the previous years should at long last bear fruit. We reckon with a continuing positive business performance in particular for EVN, while CEZ will probably continue to be affected by declining electricity prices. That notwithstanding, both names boast attractive dividend yields thanks to high free cash flows.

The continuing promotion of renewable energies and the massive price slump of primary energy sources should continue to weigh on electricity prices. By contrast, uncontrolled load fluctuations and grid operators' interventions to balance them out have become a new revenue source for Austrian utilities – at least until new market rules and the reduction of excess capacity take hold in the medium term.

At present the sector provides hardly any short-term upside potential, except for its attractive dividend yields. It may take years before a silver lining becomes visible on the horizon.

Financial analyst: Teresa Schinwald

Agrana: Defensive demand growth, margin expansion ahead

- **Current share price: EUR 87.00**
- **Target price: EUR 109.0**
- **Market capitalisation: EUR 1,236 mn**

Agrana is the global leader for fruit preparations and a leading producer of sugar, starch and bioethanol in Central and Eastern Europe. The group supplies 90% of its products to the food, beverage and animal feed industries, hence the demand is very defensive and growing steadily. At present, management targets further organic growth in the Fruit and Starch segments, both of which are the main contributors to the group's earnings currently.

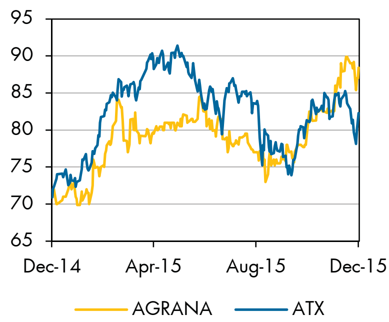
Sugar – a turnaround story: The sugar business has been suffering from a severe decline of European sugar prices over the last two years. Major market observers now predict a global supply deficit for the upcoming sugar harvest season 2015/16 (for the first time in many years), which in turn could mark a turning point for the industry. Thus we assume that Agrana's sugar performance should no longer deteriorate and reach its bottom in the current fiscal year.

Bioethanol benefits from rising prices: Agrana operates one bioethanol plant in Austria and another bioethanol asset in Hungary, with a capacity of more than 330,000 cubic metres. The prices for bioethanol fell drastically over the last two years. Meanwhile bioethanol prices have rallied to a level of more than EUR 600/cubic metre in December 2015. We think this is due to the fact that CropEnergies AG has mothballed its biggest bioethanol plant and the growing demand in Europe in general. This new price level of bioethanol should prove to be very beneficial for Agrana's bioethanol margins in the upcoming quarterly results.

A steady dividend payer: Based on our projected free cash flow of more than EUR 80 mn p.a. the group can easily fund a total dividend payment of at least EUR 50 mn. Thus we project a steady increase of dividend payments over the medium term. Our target price of EUR 109 is based on DCF-valuation using the following assumptions: 1.5% sales growth, 8% mid-cycle EBITDA margin, net gearing of 52% and capex/depreciation ratio of 120% for the terminal value.

Financial analyst: Christian Bader

Agrana vs. ATX



Agrana: 5y high: EUR 115.1, 5y low: EUR 69.09
ATX: 5y high: 3000.7, 5y low: 1652.79
Source: Bloomberg

Income statement & balance sheet (IFRS)

in EUR mn	2014	2015e	2016f	2017f
Income Statement				
Consolidated sales	2,494	2,490	2,518	2,543
EBITDA	176	184	201	204
EBIT	96	103	121	123
EBT	116	120	139	142
Net profit b.m.	85	97	112	114
Net profit a.m.	81	96	110	111
Balance sheet				
Total assets	2,407	2,452	2,519	2,583
Shareholders' equity	1,129	1,174	1,233	1,289
Goodwill	226	226	226	226
NIBD	308	274	222	172

Source: Agrana, Raiffeisen Centrobank estimates

Key ratios

	2014	2015e	2016f	2017f
EPS	5.70	6.77	7.75	7.80
PER	14.1	12.9	11.2	11.2
Operating CF per share	18.13	12.65	13.14	13.35
Price cash flow	4.4	6.9	6.6	6.5
Book value per share	79.51	82.68	86.83	90.73
Price book value	1.0	1.1	1.0	1.0
Dividend yield	4.5%	4.1%	4.5%	4.8%
ROE	7.2%	8.3%	9.1%	8.8%
ROCE	5.4%	6.1%	6.7%	6.6%
EV/EBITDA	6.7	6.9	6.1	5.7

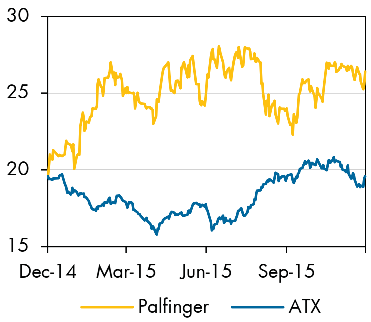
Source: Agrana, Raiffeisen Centrobank estimates

Raiffeisen RESEARCH

Palfinger: Good European and US markets should drive earnings

- **Current share price: EUR 26.40**
- **Target price: EUR 31.50**
- **Market capitalisation: EUR 985 mn**

Palfinger vs. ATX



Palfinger: 5y high: EUR 33.90; 5y low: EUR 11.59
ATX: 5y high: 3,000.7, 5y low: 1,652.79
Source: Bloomberg

As a globally leading manufacturer of hydraulic lifting, loading and handling systems, Palfinger offers a compelling cyclical play. Growth prospects in its most important markets look intact. With a few exceptions, the demand trends in Europe are on an upward trajectory and although starting from a low base, also Southern Europe seems to recover. Importantly, demand for the cash-cow product loader cranes is growing. Concerning the US market management remarks suggest that – even when adjusting for positive FX effects – the company currently sees double-digit growth rates. Moreover prospects of the business unit marine cranes appear attractive and the company is vocal that further (potentially sizeable) M&A deals are being targeted. These pillars should overcompensate for the decline in Russia and the slowing growth dynamics in China. Concerning its Chinese JV (approx. 5% of group EBIT) with Sany Heavy Industry Palfinger has acknowledged it lags behind the target for domestic sales which can be compensated for by export business. Palfinger is about to ramp-up production of access platforms which should help to spur the business expansion.

Income statement & balance sheet (IFRS)

in EUR mn	2014	2015e	2016f	2017f
Income Statement				
Consolidated sales	1,063	1,209	1,300	1,364
EBITDA	105	142	158	167
EBIT	66	102	117	125
EBT	55	89	104	113
Net profit b.m.	44	70	81	88
Net profit a.m.	38	62	73	79
Balance sheet				
Total assets	1,130	1,202	1,245	1,278
Shareholders' equity	445	494	546	602
Goodwill	126	126	126	126
NIBD	392	397	376	347

Source: Palfinger, Raiffeisen Centrobank estimates

Key ratios

	2014	2015e	2016f	2017f
EPS	1.05	1.66	1.95	2.12
PER	20.0	15.9	13.5	12.4
Operating CF per share	1.32	1.93	2.68	2.97
Price cash flow	15.9	13.7	9.9	8.9
Book value per share	11.92	13.24	14.65	16.13
Price book value	1.8	2.0	1.8	1.6
Dividend yield	1.6%	2.1%	2.4%	2.7%
ROE	9.4%	13.2%	14.0%	13.8%
ROCE	7.5%	8.9%	9.7%	10.1%
EV/EBITDA	9.9	8.7	7.7	7.1

Source: Palfinger, Raiffeisen Centrobank estimates

For FY 2015 the management guides for revenue growth of slightly more than 10%, which translates into ca. EUR 1.2 bn. Against the backdrop of the Q1-3 performance (+15% to EUR 899 mn) and the order situation the target appears well supported. Moreover the management displayed confidence that the FY margin should reach at least 8%. Assuming that Q4 EBIT is at a similar or even (seasonally) higher level than Q3, Palfinger could break the EUR 100 mn EBIT threshold for the first time in the group's history. We forecast EBIT of EUR 102 mn and a margin of 8.4%. Against the backdrop of sound economic prospects for the main countries as well as the main end-market construction (Euroconstruct projects 3% growth in 2016) we are upbeat that Palfinger can sustain the growth mode also in the next year. Although we project the growth rate to come down to 7.5% (lower contribution of M&A), we forecast a margin improvement to 9%, translating into EBIT of EUR 117 mn.

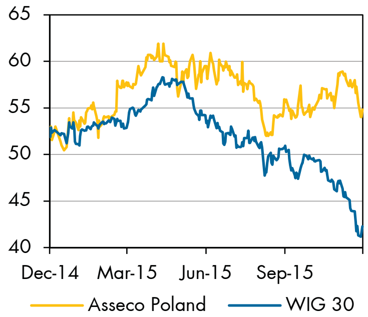
Financial analyst: Markus Remis

Asseco Poland: Increased order pipeline

- **Current share price: PLN 54.80**
- **Target price: PLN 72.00**
- **Market capitalisation: EUR 952 mn**

The core sales and earnings drivers of Asseco Poland for 2016e are made up by a continued above group average sales growth of the listed subsidiary Formula Systems and the already implemented cost-cutting measures on the level of the parent company Asseco Poland S.A., which should enable a rebound of the net earnings development in 2016e yoy. Additional upside potential could be added by the ongoing tenders related to a battle management system at the Polish Ministry of Defence and a large-scale IT tender at the Polish Railways in the short term and in the mid-term by prospective EU funded tenders, not only in Poland, but also in other CEE countries (e.g. Czech Republic and Slovakia). In the latter case the outstanding track record of Asseco Poland group with the predecessor programme, which expired in 2013, represents a sound basis for similar upcoming tenders.

Asseco Poland vs. WIG 30



Asseco Poland: 5y high: PLN 61.91; 5y low: PLN 35.45
WIG 30: 5y high: 2,960.0, 5y low: 1,959.4
Source: Bloomberg

We forecast sales growth for Asseco Poland group by more than 8% yoy to PLN 7.7 bn for 2016e, predominantly driven by the listed subsidiary Formula Systems, which benefits from an expansion of two of its subsidiaries (i.e. Matrix IT and Sapiens) in the US as well as from appreciation of the ILS (Israeli shekel) vs. PLN. Furthermore we expect EBIT to increase by roughly 8% from PLN 706 mn in 2015e to PLN 764 mn due to the anticipated growing sales, but also due to an improved profitability of the parent company Asseco Poland S.A. (not considering the most recent acquisition Infovide). For net earnings we reckon with a smaller increase in comparison to sales and anticipate some 5% growth yoy from PLN 373 mn for 2015e to PLN 389 mn for 2016e due to the consideration of profits of minority shareholders, particularly for the listed Formula Systems group.

In terms of P/E and EV/EBITDA for 2016e the share of Asseco Poland trades with a discount to peers of approx. 6% and 5%, respectively. However, we preferred to value the share via a DCF model because of a different product portfolio and a different geographical focus compared to the peers and derived a (cum-dividend) 12-month price target of PLN 72.00.

Financial Analyst: Daniel Damaska

Income statement & balance sheet (IFRS)

in PLN mn	2014	2015e	2016f	2017f
Income Statement				
Consolidated sales	6,232	7,081	7,665	8,611
EBITDA	906	1,001	1,049	1,120
EBIT	637	729	773	838
EBT	648	688	743	816
Net profit b.m.	529	566	617	677
Net profit a.m.	358	373	389	424
Balance sheet				
Total assets	10,680	10,608	10,610	10,982
Shareholders' equity	5,283	5,416	5,555	5,719
Goodwill	5,207	5,207	5,207	5,207
NIBD	-376	-229	-186	-214

Source: Asseco Poland, Raiffeisen Centrobank estimates

Key ratios

	2014	2015e	2016f	2017f
EPS	4.32	4.49	4.69	5.10
PER	11.8	12.2	11.7	10.7
Operating CF per share	9.84	7.25	9.10	10.48
Price cash flow	5.2	7.6	6.0	5.2
Book value per share	63.65	65.25	66.93	68.90
Price book value	0.8	0.8	0.8	0.8
Dividend yield	5.7%	5.5%	5.7%	5.9%
ROE	6.8%	7.0%	7.1%	7.5%
ROCE	6.9%	7.0%	7.3%	7.9%
EV/EBITDA	7.0	6.8	6.6	6.1

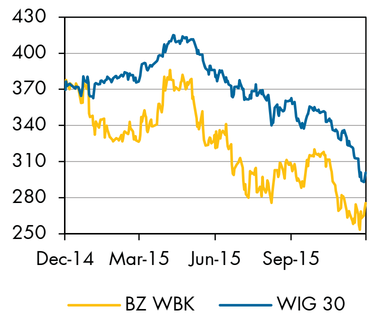
Source: Asseco Poland, Raiffeisen Centrobank estimates

Raiffeisen RESEARCH

BZ WBK: High regulatory & political risks look to be priced-in

- **Current share price: PLN 275.5**
- **Target price: PLN 328.0**
- **Market capitalisation: EUR 6.338 mn**

BZ WBK vs. WIG 30



BZ WBK: 5y high: PLN 422.0; 5y low: PLN 210.0
WIG 30: 5y high: 2,960.0, 5y low: 1,959.4
Source: Bloomberg

We see BZ WBK our top pick among Polish banks in the mid-term. The CEO contest is to be completed by year-end, and if nothing unexpected happens, the new head will be a person with current or past BZ WBK background. Although a recurring 27bp tax on assets and a new BFG regime have cut our perpetual RoE forecast to 11.8% from 12.6%, a target P/BV of 1.6x would allow for the highest upside including CHF related risk. Both BZ WBK stand-alone and its subsidiary SCB should be modestly better off in terms of relative revenue impact from the bank tax introduction compared to its main large peers. We appreciate the group structure settling down after years of constant reshufflings, although an active role on the M&A front looks a step more conceivable should the regulator become really "softer" with regard to the top-10 banks acting as buyers. Our 12m TP of PLN 328 also incorporates the modelled impact from the latest CHF bill. We believe that the chances for a dividend payment from 2014/2015 stand good, as the bank should comfortably fulfil the new requirements (Q3 15 T1/CAR do not include Q1-3 15 profit).

Income statement & balance sheet (IFRS)

in PLN mn	2014	2015e	2016f	2017f
Income statement				
Net interest income	3,997	4,281	4,515	4,857
Risk provisions	-836	-811	-875	-905
Net commission income	1,848	1,925	2,031	2,131
Net trading result	101	202	222	244
Pre-tax profit	2,641	3,199	2,827	3,336
Net profit after minorities	1,916	2,329	1,965	2,377
Balance sheet				
Loans and advances to customers	90,947	98,646	103,748	109,296
Amounts owed to customers	94,982	97,401	100,911	104,550
Shareholders' equity	16,531	17,902	18,703	20,097
Total assets	134,502	137,437	141,573	147,338

Source: BZ WBK, Raiffeisen Centrobank estimates

Key ratios

	2014	2015e	2016e	2017e
EPS adjusted	19.31	20.22	19.81	23.96
PER	19.42	11.73	13.90	11.50
Book value per share	166.64	180.46	188.53	202.59
Price book ratio	2.25	1.53	1.46	1.36
Price tang. book value	2.02	1.73	1.64	1.58
Dividend per share	9.66	11.74	9.91	11.98
Dividend yield (%)	2.6%	4.3%	3.6%	4.3%
RoE adj.	12.6%	11.7%	10.7%	12.3%
Loans/deposits	95.8%	101.3%	102.8%	104.5%
Tier 1 ratio	13.4%	14.2%	14.4%	14.8%

Source: BZ WBK, Raiffeisen Centrobank estimates

BZ WBK should deliver 10.7% RoE in 2016 followed by a rebound to 12.3% in 2017e, topping the peer group metrics albeit at expected 50% dividend pay-outs for 2014e/2015e/16e. After having reduced our rate forecasts we expect only gradual growth of NII/NIM but more steep F&CI increase while adding a negative effect of 31 bps bank tax on assets (net of re-pricing factor!) for 2016e and 27bp from 2017e. Given the above-average CAGR of loans of 5% until 2017e backed by robust capital adequacy, we keep expecting the nominal risk provisioning to tend upwards, but in relative terms CoR should stay at 85-90bp. New capital buffers (0.72% FX + 1.25% systemic buffer) should not be a big challenge but the (likely) dividend proposal for 2014 and 2015 should be made only in spring 2016. On Q4 15, the CFO indicated 1) the sale of legacy NPLs (at stand-alone) that might lead to a visible increase of provisioning (one-off!), 2) a PLN 25 mn contribution to the Mortgage Assistance Fund and 2) a one-off BFG payment of PLN 171 mn.

Financial analyst: Jovan Sikimic

Novatek: Expecting strong output growth

- **Current share price: USD 83.65**
- **Target price: USD 106.0**
- **Market capitalisation: EUR 23,623 mn**

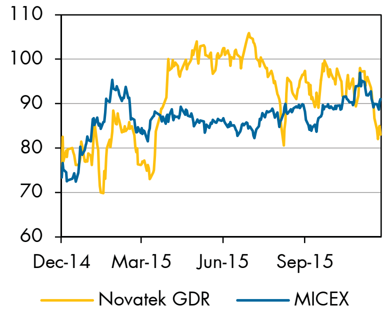
We rate Novatek GDRs a BUY with a target price of USD 106. In the mid-term (2016-17e) the key point of the investment case should be its operating performance on the back of a hike in liquids output.

In December, Novatek launched commercial production at the Yarudeyskoye oil field, a joint venture between NOVATEK (51%) and Nefte Petroleum Limited (49%). The production should rapidly reach its planned daily levels of 3.5 mn tons of crude oil output on an annualised basis. In addition, Novatek should see a significant positive impact from the new tax regime in light of the hike in Naphtha production. Moreover, producers of condensate should still be much more profitable compared to crude producers, as by 2018e crude oil will be taxed at a MET rate of 39% of the gross price, while condensate producers would only pay about 13% of the condensate gross price. At the same time, the export duties for both condensate and crude oil are to be cut to the same level. Also, we expect support from the crude oil assets of the company, which are exempt from mineral extraction tax (30% of the Urals price in 2015e, and up to 40% from 2017e). Additional support should come from lower capex yoy, which Novatek plans to cut from RUB 63 bn in 2014 to RUB 50 bn in 2015e and to RUB 25 bn in 2016e.

An important trigger for the stock should be the deal on financing Yamal LNG. The delay in the project financing was one of the main reasons for the drop in the stock, but should prove a strong trigger in the short term. According to the management, Novatek has finalised all important negations with creditors and partners concerning the financing of its Yamal LNG project. The deal will likely be announced as soon as possible (probably in 1Q 16). Another short-term trigger could come from the sale of 9.9% in Yamal LNG to China's Silk Road Fund (SRF). The deal should be closed by the end of the year. Moreover, before the same date SRF should provide a loan to the project, which was agreed with Novatek.

Financial analyst: Andrey Polischuk

Novatek vs. MICEX



Novatek: 5y high: PLN 61.91; 5y low: PLN 35.45
MICEX: 5y high: 1,868.1, 5J-Tief: 1,237.4
Source: Bloomberg

Income statement & balance sheet (IFRS)

in USD mn	2014	2015e	2016f	2017f
Income Statement				
Consolidated sales	9,309	7,912	10,394	11,868
EBITDA	3,594	2,960	3,659	4,109
EBIT	3,147	2,701	3,259	3,693
EBT	1,375	2,997	4,695	5,309
Net profit b.m.	1,487	2,390	3,596	4,003
Net profit a.m.	1,497	2,398	3,613	4,028
Balance sheet				
Total assets	12,427	13,314	15,528	17,953
Shareholders' equity	6,839	8,564	11,575	14,607
Goodwill	0	0	0	0
NIBD	1,959	628	-1,573	-4,309

Source: Novatek, Raiffeisen Centrobank estimates

Key ratios

in USD mn	2014	2015e	2016f	2017f
EPS	0.49	0.79	1.19	1.33
PER	15.2	10.6	7.1	6.3
Operating CF per share	0.95	0.81	0.80	1.02
Price cash flow	7.9	10.4	10.5	8.2
Book value per share	2.25	2.82	3.81	4.81
Price book value	3.3	3.0	2.2	1.7
Dividend yield	3.6%	2.8%	4.3%	4.7%
ROE	16.5%	31.1%	35.9%	30.8%
ROCE	11.6%	21.3%	27.6%	26.0%
EV/EBITDA	6.1	7.8	5.7	4.4

Source: Novatek, Raiffeisen Centrobank estimates

Risk notifications and explanations

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Recommendations history for 12 months

GAZPROM	**Start of coverage**	17/04/2008
	Date of recommendation	**Recommendation**
GAZPRU 5.999% due 2021	15/12/2014	Buy
GAZPRU 5.999% due 2021	23/01/2015	Buy
GAZPRU 5.999% due 2021	04/02/2015	Buy
GAZPRU 5.999% due 2021	07/05/2015	Buy
GAZPRU 5.999% due 2021	09/07/2015	Buy
GAZPRU 4.950% due 2022	16/10/2015	Sell
LUKOIL	**Start of coverage**	17/04/2008
	Date of recommendation	**Recommendation**
LUKOIL 6.356% due 2017	23/01/2015	Sell
LUKOIL 6.356% due 2017	05/03/2015	Sell
LUKOIL 7.25% due 2019	07/05/2015	Buy
LUKOIL 7.25% due 2019	09/07/2015	Buy
LUKOIL 7.25% due 2019	12/03/2015	Buy
VTB	**Start of coverage**	28/01/2009
	Date of recommendation	**Recommendation**
VTB 6.551% due 2020	29/09/2015	Buy
VTB 6.551% due 2020	07/08/2015	Closed on 21 July 2015
VTB 6.551% due 2020	06/11/2015	Closed on 27 July 2015
VTB 6.25% due 2035	30/01/2015	Sell
Alfa Bank	**Start of coverage**	22/04/2009
	Date of recommendation	**Recommendation**
ALFARU 7.5% due 2019	29/10/2015	Buy
ALFARU 7.785% due 2017	22/04/2015	Sell
Credit Bank of Moscow	**Start of coverage**	21/03/2012
	Date of recommendation	**Recommendation**
CRBKMO 8.7% due 2018	18/06/2015	Buy
CRBKMO 7.7% due 2018	30/01/2015	Sell
Bank Otkritie Financial Corporation	**Start of coverage**	29/10/2015
	Date of recommendation	**Recommendation**
NMOSRM 7.25% due 2018	29/10/2015	Buy

Raiffeisen RESEARCH

Bonds

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

Recommendations history: Local currency government bonds (I: no change)*

	CZ				HU				PL				RO				RU				TR			
Date of change	2y	5y	10y	CZK	2y	5y	10y	HUF	2y	5y	10y	PLN	2y	5y	10y	RON	2y	5y	10y	RUB	2y	5y	10y	TRY
09/12/2014	Hold	Hold	Buy	Hold	Hold	Hold	Hold	Sell	Buy	Buy	Buy	Hold	Buy	Hold	Hold	Hold	Sell	Sell	Sell	Sell	Buy	Buy	Buy	Buy
09/02/2015	I	I	Hold	I	Buy	Buy	Buy	I	Hold	Hold	Hold	I	Buy	Buy	Buy	I	I	I	I	I	I	I	I	I
24/03/2015	I	I	I	I	I	Hold	Hold	I	I	I	I	Sell	I	I	I	I	Hold	I	I	I	I	Hold	Hold	Sell
28/04/2015	I	I	I	I	I	I	I	I	I	I	I	Hold	Hold	Hold	Hold	Hold	Buy	Hold	Hold	I	I	I	I	Hold
15/05/2015	I	Buy	Buy	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I
02/06/2015	I	Hold	Hold	I	Hold	I	I	Hold	I	I	I	I	I	I	I	I	I	I	I	Hold	I	Buy	Buy	Buy
24/06/2015	I	I	Buy	I	I	I	Sell	I	I	I	Sell	I	I	I	Sell	I	I	Buy	Buy	I	Sell	Sell	Sell	Sell
06/08/2015	I	I	Hold	I	I	Sell	I	I	I	Sell	I	I	I	Sell	I	I	Hold	Hold	Hold	I	Hold	I	I	Hold
03/09/2015	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	Buy	I	I	I	Buy
22/09/2015	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	Sell	I	I	I
04/11/2015	I	I	I	I	Buy	Buy	Buy	I	I	Hold	Hold	I	I	Hold	Hold	I	I	I	I	Hold	Hold	Hold	Hold	Hold
17/12/2015	I	I	I	I	I	I	I	Buy	Buy	Buy	I	I	Buy	Buy	Buy	Buy	Buy	Buy	I	Buy	I	I	I	I

** recommendations based on absolute expected performance in LCY; FX vs EUR; Source: RBI/Raiffeisen RESEARCH*

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

	BG		HR		CZ		HU		KZ		LT		PL		RO	
Date of change	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD
09/12/2014	Hold	–	Sell	Sell	Hold	Hold	Buy	Hold	–	–	Hold	Hold	Buy	Buy	Hold	Hold
09/02/2015	I	–	I	I	I	I	I	I	–	–	I	I	Hold	Hold	Buy	I
05/03/2015	I	–	Hold	Hold	I	I	I	I	–	–	I	I	I	I	I	I
24/03/2015	I	–	I	I	I	I	Hold	I	–	–	Buy	Buy	Buy	Hold	I	Buy
17/04/2015	I	–	I	I	I	I	I	I	–	–	I	I	I	I	I	I
28/04/2015	I	–	I	I	I	I	I	I	–	–	I	I	I	I	I	I
02/06/2015	Sell	–	I	I	I	I	I	I	–	–	Hold	Hold	I	Buy	Hold	Hold
24/06/2015	Hold	–	I	I	I	I	I	I	–	–	I	I	I	Hold	I	I
06/08/2015	I	–	Sell	Sell	I	I	I	I	–	Buy	Buy	I	Hold	I	I	I
03/09/2015	I	–	I	I	I	I	I	I	–	I	Hold	I	I	I	I	I
22/09/2015	I	–	I	I	I	I	I	I	–	I	I	I	Buy	I	Buy	Buy
07/10/2015	I	–	I	I	I	I	Buy	Buy	–	Hold	I	I	I	I	I	I
04/11/2015	I	–	I	I	I	I	I	I	–	I	Buy	I	I	Buy	I	I
03/12/2015	I	-	I	I	I	I	I	I	-	Buy		I	I			
17/12/2015	I	–	I	I	I	I	I	I	–	I	Hold	I	I	I	I	I

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

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

	RU		RS		SK		SI		TR		UA		BY	
Date of change	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD
16/09/2014	Hold	Hold	–	Hold	–	–	–	–	Buy	Buy	Sell	Sell	–	Hold
09/12/2014	Sell	Sell	–	I	–	–	–	–	Hold	Hold	I	I	–	I
09/02/2015	I	I	–	Sell	–	–	–	–	I	I	I	I	–	Sell
05/03/2015	Hold	Hold	–	Hold	–	–	–	–	I	I	I	I	–	I
24/03/2015	Buy	Buy	–	Hold	–	–	–	–	I	I	I	I	–	Hold
17/04/2015	Hold	Hold	–	I	–	–	–	–	I	I	I	I	–	I
28/04/2015	I	I	–	I	Hold	–	Buy	–	Buy	Buy	Hold	Hold	–	Buy
02/06/2015	I	I	–	Sell	I	–	I	–	I	I	I	I	–	I
24/06/2015	I	I	–	I	I	–	I	–	I	Hold	I	I	–	I
06/08/2015	I	I	–	I	I	–	Hold	–	Hold	I	Sell	Sell	–	Sell
03/09/2015	I	I	–	I	I	–	I	–	I	I	Hold	Hold	–	I
22/09/2015	I	I	–	I	I	–	I	–	Sell	Sell	I	I	–	I
07/10/2015	I	I	–	I	I	–	I	–	I	I	I	I	–	I
04/11/2015	Buy	Buy	–	I	I	–	I	–	Hold	Hold	–	I	–	Hold
03/12/2015	Hold	Hold	–	I	I	–	I	–	I	I	–	Sell	–	I
17/12/2015	I	I	–	I	I	–	I	–	Buy	Hold	–	I	-	I

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

Sovereign Eurobonds: Relative value pair trades (B: buy; S: sell; I: no change)*

	USD		USD		EUR	
Date of change	KZ'44	RU'43	LT'21	LV'21	LT'24	LV'24
	Buy	Sell	Buy	Sell	Buy	Sell
05/03/2015	–		–		–	
24/06/2015	–		–		–	
16/07/2015	Opened		Opened		Opened	
06/08/2015	I		I		I	
03/09/2015	I		I		I	
04/11/2015	Closed (-)		I		I	
03/12/2015			Closed (0)		Closed (0)	

** recommendations based on relative expected performance, i.e. expected spread widening or tightening between two bonds over ~1 to 3 months, (+) - profit, (-) - loss*
Source: RBI/Raiffeisen RESEARCH

Equities

Recommendations history

Date	MICEX	WIG 30	PX	BUX	BET	CROBEX 10	BIST 100	ATX
08/12/2014	I	Buy	Buy	Buy	Buy	I	I	I
24/03/2015	Buy	I	I	I	I	I	I	I
15/05/2015	I	I	I	I	I	I	I	Hold
22/06/2015	I	I	I	I	I	I	I	Buy
24/06/2015	I	Hold	I	I	I	I	Hold	I
18/09/2015	I	I	I	I	I	Buy	I	I
23/10/2015	I	I	I	I	I	I	I	Hold
17/12/2015	I	I	I	I	I	Hold	Buy	Buy

Equities

Financial instruments/Company	Date of the first publication
MICEX	21/12/2009
WIG 30	08/12/2014
PX	01/06/1994
BUX	01/06/1994
BET	19/12/2006
CROBEX 10	31/07/2009
BIST 100	25/06/2012
ATX	01/04/1993

Equities

Alior Bank: 5y high: PLN 99.8, 5y low: PLN 60.35

Recommendation history

23.10.2013 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
04/12/2015	Buy	77.00	65.80	17.0%
17/06/2015	Hold	92.80	87.20	6.4%
27/04/2015	Buy	103.00	89.00	15.7%
31/03/2015	Buy	99.00	84.95	16.5%
08/01/2015	Buy	95.00	76.30	24.5%
22/10/2014	Buy	95.00	76.00	25.0%
02/09/2014	Buy	103.00	76.13	35.3%

AGRANA: 5y high: EUR 115.1, 5y low: EUR 69

Recommendation history

24/02/2004 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
19/11/2015	Buy	109	82.59	32.00%
09/10/2015	Buy	95	77.99	21.80%
10/09/2015	Buy	95	75.87	25.20%
02/04/2015	Hold	84.5	79.2	6.70%
14/10/2014	Hold	82	73	12.30%
02/06/2014	Hold	100	89.42	11.80%
26/03/2014	Buy	102	85.5	19.30%

Andritz: 5y high: EUR 57.49, 5y low: EUR 27.41

Recommendation history

01/02/2002 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
06/11/2015	Buy	55	45.8	20.10%
08/10/2015	Buy	54	41.7	29.50%
31/07/2015	Buy	60	49.19	22.00%
05/03/2015	Buy	60	51.74	16.00%
26/01/2015	Buy	55	47.5	15.80%
09/12/2014	Buy	52	45.26	14.90%
06/11/2014	Buy	47	38.74	21.30%
08/08/2014	Buy	47	40.84	15.10%
27/05/2014	Hold	47	43.23	8.70%
26/03/2014	Hold	47	42.91	9.50%
20/02/2014	Hold	45	43.6	3.20%

Asseco Poland: 5y high: PLN 61.91, 5y low: PLN 35.45

Recommendation history

02/07/2008 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
12/11/2015	Buy	72	55.8	29.00%
31/03/2015	Buy	70	59.5	17.60%
18/02/2015	Buy	68	53.93	26.10%
10/10/2014	Buy	55	44.55	23.50%
06/05/2014	Buy	54.8	44.21	24.00%
22/01/2014	Buy	52	44.9	15.80%

BZ WBK: 5y high: PLN 422, 5y low: PLN 210

Recommendation history

07/03/2005 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
04/12/2015	Buy	328	259.2	26.50%
17/06/2015	Buy	392	332	18.10%
27/04/2015	Buy	433	378	14.60%
08/01/2015	Hold	380	359	5.80%
22/10/2014	Hold	408	370.45	10.10%
02/10/2014	Hold	441	391	12.80%
10/06/2014	Buy	464	389.9	19.00%
24/03/2014	Hold	428	403.3	6.10%
22/01/2014	Hold	398	384	3.60%

Equities

CEZ: 5y high: CZK 961, 5y low: CZK 425.9

Recommendation history

01/02/2002 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
19/06/2015	Buy	670	547	22.50%
25/03/2015	Buy	740	640	15.60%
26/02/2015	Buy	720	620	16.10%
11/04/2014	Buy	670	562	19.20%
24/03/2014	Buy	630	542	16.30%
20/02/2014	Buy	640	555	15.30%

Electrica: 5y high: RON 13.01, 5y low: RON 10.72

Recommendation history

25/09/2014 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
10/06/2015	Buy	17.4	11.84	47.00%
25/09/2014	Buy	16.9	12.94	30.60%

Energa: 5y high: PLN 27. 5y low: PLN 11

Recommendation history

12/11/2015 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
12/11/2015	Buy	19	16.05	18.40%

Erste Group: 5y high: EUR 39.45, 5y low: EUR 10.645

Recommendation history

01/02/2002 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
07/10/2015	Buy	30	25.97	15.50%
17/08/2015	Hold	30	28.42	5.60%
17/06/2015	Hold	27	25.2	7.10%
17/02/2015	Hold	24	23.09	3.90%
12/08/2014	Hold	21.5	19.29	11.50%
10/06/2014	Hold	28	26.14	7.10%
25/03/2014	Buy	27.5	23.64	16.40%
14/01/2014	Hold	31	29	6.90%

EVN: 5y high: EUR 13.575, 5y low: EUR 9.169

Recommendation history

01/02/2002 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
01/12/2015	Buy	12.4	10.05	23.40%
30/03/2015	Buy	12.4	10.42	19.00%
03/12/2014	Buy	12.2	10.45	16.70%
03/07/2014	Hold	11.3	10.28	9.90%
20/03/2014	Hold	11.7	10.53	11.10%

Getin Noble Bank: 5y high: PLN 3.68, 5y low: PLN 0.49

Recommendation history

23/01/2012 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
04/12/2015	Hold	0.56	0.54	3.70%
17/06/2015	Sell	1.3	1.49	-12.80%
27/04/2015	Sell	1.57	1.83	-14.20%
08/01/2015	Buy	2.61	2.23	17.00%
22/12/2014	Buy	2.61	2.16	20.80%
04/12/2014	Hold	2.61	2.21	18.10%
22/10/2014	Hold	2.66	2.36	12.70%
20/08/2014	Hold	3.05	2.65	15.10%
10/06/2014	Hold	3.3	3.2	3.10%
26/03/2014	Reduce	2.91	3.15	-7.60%

Equities

InterRAO: 5y high: RUB 4.93, 5y low: RUB 0.652

Recommendation history

12/02/2013 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
08/06/2015	Buy	1.9	1.152	64.90%
11/02/2015	Buy	1.1	0.8071	36.30%
30/05/2014	Buy	1.4	0.9332	50.00%

Komercni Banka: 5y high: CZK 5,667, 5y low: CZK 2,900

Recommendation history

01/02/2002 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
10/11/2015	Buy	5.800	5.105	13.60%
16/10/2015	Buy	5.800	5.147	12.70%
17/06/2015	Buy	5.850	5.162	13.30%
07/05/2015	Buy	5.850	5.220	12.10%
06/11/2014	Buy	5.400	4.690	15.10%
04/08/2014	Buy	5.250	4.499	16.70%
10/06/2014	Buy	5.250	4.616	13.70%

Novatek: 5y high: RUB 635, 5y low: RUB 288.91

Recommendation history

16/10/2012 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
25/08/2015	Hold	645	567.2	13.70%
12/08/2015	Hold	645	592.5	8.90%
30/03/2015	Buy	567	416.5	36.10%
04/08/2014	Buy	489	363.5	34.50%
24/03/2014	Buy	499	328	52.10%

OMV: 5y high: EUR 39.69, 5y low: EUR 20.07

Recommendation history

01/02/2002 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
09/10/2015	Hold	25.5	24.59	3.70%
08/10/2015	Hold	25.5	24.37	4.60%
25/08/2015	Buy	25	21.16	18.20%
18/08/2015	Hold	25	24.04	4.00%
29/05/2015	Hold	27	25.77	4.80%
12/03/2015	Buy	28.75	24.68	16.50%
21/01/2015	Buy	27	22.19	21.70%
14/11/2014	Buy	31.5	24.04	31.00%
06/10/2014	Buy	34.5	25.36	36.00%
27/08/2014	Buy	35.5	29.28	21.30%
16/05/2014	Buy	37	31.09	19.00%
12/02/2014	Buy	39.5	33.06	19.50%

Equities

Palfinger: 5y high: EUR 33.9, 5y low: EUR 11.59

Recommendation history

01/02/2002 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
02/11/2015	Buy	31.5	25.58	23.10%
10/08/2015	Buy	31.5	27.22	15.70%
04/05/2015	Hold	29.5	26.72	10.40%
19/02/2015	Hold	25	24.84	0.70%
06/10/2014	Hold	21.5	24	-10.40%
11/08/2014	Buy	27	22.51	19.90%
08/05/2014	Hold	27.5	27.23	1.00%
21/02/2014	Reduce	27.5	30.68	-10.40%

Bank Pekao SA: 5y high: PLN 201.5, 5y low: PLN 123.4

Recommendation history

10/06/2008 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
04/12/2015	Buy	161	134.55	19.70%
17/06/2015	Hold	185.4	182	1.90%
27/04/2015	Hold	196	191.75	2.20%
08/01/2015	Hold	191	175.4	8.90%
22/10/2014	Hold	194	182.5	6.30%
13/08/2014	Hold	198	172.5	14.80%
10/06/2014	Hold	206	191	7.90%

PKO BP: 5y high: PLN 46.3 (13/04/2011), 5y low: PLN 25.11 (09/12/2015)

Recommendation history

10/01/2005 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
04/12/2015	Hold	26.60	25.52	4.2%
17/06/2015	Hold	33.60	31.90	5.3%
27/04/2015	Hold	39.10	35.93	8.8%
08/01/2015	Buy	41.70	35.20	18.5%
22/10/2014	Buy	42.60	37.00	15.1%
11/09/2014	Buy	47.00	39.90	17.8%
10/06/2014	Buy	47.10	40.29	16.9%
06/03/2014	Buy	49.60	42.75	16.0%

voestalpine: 5y high: EUR 41.58, 5y low: EUR 18.38

Recommendation history

01/02/2002 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
15/06/2015	Hold	43	41.2	4.40%
03/02/2015	Hold	35.5	31.68	12.10%
13/11/2014	Buy	37	31.71	16.70%
11/08/2014	Buy	37	31.03	19.30%
16/06/2014	Hold	37	34	8.80%
13/02/2014	Hold	35	34.44	1.60%

Equities

E.ON: 5y high: EUR 25.26, 5y low: EUR 7.22

Start of Coverage 29/11/2002

ISIN	Date of past recommendations	Company	Investment recommendation
DE000ENAG999	01/10/2015	E.ON	Sell
DE000ENAG999	28/05/2015	E.ON	Sell
DE000ENAG999	01/04/2015	E.ON	Sell
DE000ENAG999	01/12/2014	E.ON	Sell
DE000ENAG999	29/09/2014	E.ON	Hold

RWE: 5y high: EUR 55.28, 5y low: EUR 9.22

Start of Coverage 19/03/2004

ISIN	Date of past recommendations	Company	Investment recommendation
DE0007037129	15/12/2015	RWE	Hold
DE0007037129	02/09/2015	RWE	Sell
DE0007037129	02/06/2015	RWE	Sell
DE0007037129	07/04/2015	RWE	Sell
DE0007037129	31/12/2014	RWE	Hold
DE0007037129	09/09/2014	RWE	Hold

Coverage universe recommendation overview

Empty	buy	hold	reduce	sell	suspended	UR
Universe	62	54	6	3	6	2
Universe %	47%	41%	5%	2%	5%	2%
Investment banking services	20	14	3	1	2	0
Investment banking services %	50%	35%	8%	3%	5%	0%

Source: Raiffeisen Centrobank, rounding differences may occur

Technical analysis, and asset allocation

Financial instruments/Company	Date of the first publication
ATX	15/04/1995
BELEX 15	01/10/1996
BUX	01/10/1996
CROBEX	18/11/2009
MICEX	02/09/2013
PX	15/03/2002
WIG 30	01/10/1996

Technical analysis: Historical recommendations

Date	ATX	BUX	BIST 100	CROBEX 10	MICEX	WIG 30
11/12/2014	NEUTRAL	NEUTRAL	BULLISH	BEARISH	BEARISH	NEUTRAL
18/12/2014	NEUTRAL	NEUTRAL	BULLISH	BEARISH	BULLISH	BULLISH
08/01/2015	NEUTRAL	NEUTRAL	BULLISH	BULLISH	BULLISH	BULLISH
22/01/2015	NEUTRAL	NEUTRAL	BULLISH	BULLISH	BULLISH	NEUTRAL
29/01/2015	NEUTRAL	NEUTRAL	BULLISH	BEARISH	BULLISH	BULLISH
05/02/2015	NEUTRAL	BULLISH	BULLISH	BEARISH	BULLISH	BULLISH
12/02/2015	NEUTRAL	BULLISH	BULLISH	BULLISH	BULLISH	NEUTRAL
19/02/2015	BULLISH	BULLISH	BULLISH	BEARISH	BULLISH	BULLISH
05/03/2015	BULLISH	BULLISH	BEARISH	NEUTRAL	BULLISH	BULLISH
11/03/2015	NEUTRAL	NEUTRAL	BEARISH	BEARISH	BULLISH	NEUTRAL
19/03/2015	NEUTRAL	BULLISH	BEARISH	BULLISH	BULLISH	BULLISH
23/03/2015	BULLISH	BULLISH	NEUTRAL	BEARISH	BEARISH	BULLISH
02/04/2015	BULLISH	BULLISH	NEUTRAL	BULLISH	NEUTRAL	BULLISH
09/04/2015	BULLISH	BULLISH	BULLISH	BULLISH	NEUTRAL	BULLISH
15/04/2015	BULLISH	BULLISH	BULLISH	BULLISH	NEUTRAL	BULLISH
23/04/2015	BEARISH	BULLISH	BULLISH	BULLISH	BEARISH	BULLISH
30/04/2015	BEARISH	NEUTRAL	BULLISH	BULLISH	NEUTRAL	NEUTRAL
07/05/2015	BEARISH	NEUTRAL	BULLISH	NEUTRAL	NEUTRAL	NEUTRAL
13/05/2015	BULLISH	BEARISH	BULLISH	BEARISH	NEUTRAL	NEUTRAL
20/05/2015	BULLISH	BULLISH	BULLISH	BULLISH	BEARISH	NEUTRAL
28/05/2015	BEARISH	BULLISH	NEUTRAL	NEUTRAL	BEARISH	NEUTRAL
03/06/2015	BEARISH	NEUTRAL	NEUTRAL	BULLISH	BEARISH	BEARISH
11/06/2015	NEUTRAL	NEUTRAL	BULLISH	BULLISH	NEUTRAL	BULLISH
25/06/2015	BULLISH	BULLISH	NEUTRAL	BULLISH	BULLISH	NEUTRAL

Technical analysis: Historical recommendations

Date	ATX	BUX	BIST 100	CROBEX 10	MICEX	WIG 30
02/07/2015	BULLISH	BULLISH	NEUTRAL	NEUTRAL	BEARISH	BULLISH
09/07/2015	NEUTRAL	BULLISH	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL
16/07/2015	BULLISH	BULLISH	NEUTRAL	BULLISH	BULLISH	BULLISH
22/07/2015	BULLISH	BULLISH	NEUTRAL	BULLISH	NEUTRAL	BEARISH
30/07/2015	NEUTRAL	BULLISH	BULLISH	BULLISH	NEUTRAL	BEARISH
06/08/2015	NEUTRAL	BULLISH	BULLISH	BULLISH	BULLISH	NEUTRAL
11/08/2015	NEUTRAL	NEUTRAL	BULLISH	BULLISH	BULLISH	NEUTRAL
20/08/2015	BEARISH	BEARISH	BEARISH	NEUTRAL	BEARISH	NEUTRAL
26/08/2015	NEUTRAL	BEARISH	NEUTRAL	BEARISH	NEUTRAL	NEUTRAL
03/09/2015	BEARISH	BULLISH	BEARISH	BULLISH	NEUTRAL	BULLISH
10/09/2015	NEUTRAL	BEARISH	BEARISH	BEARISH	NEUTRAL	BULLISH
16/09/2015	BULLISH	NEUTRAL	BULLISH	BEARISH	BULLISH	NEUTRAL
24/09/2015	BEARISH	BEARISH	BEARISH	BEARISH	BEARISH	BEARISH
01/10/2015	BEARISH	BULLISH	BEARISH	BEARISH	BULLISH	BEARISH
08/10/2015	BULLISH	NEUTRAL	BEARISH	BEARISH	BULLISH	BULLISH
14/10/2015	NEUTRAL	NEUTRAL	BULLISH	BEARISH	BULLISH	NEUTRAL
22/10/2015	BULLISH	BULLISH	BULLISH	BULLISH	BULLISH	BULLISH
20/10/2015	BULLISH	BULLISH	BULLISH	NEUTRAL	BULLISH	BULLISH
05/11/2015	BULLISH	BULLISH	BULLISH	BEARISH	BULLISH	BEARISH
12/11/2015	BULLISH	BULLISH	BULLISH	BEARISH	BULLISH	NEUTRAL
18/11/2015	BULLISH	BULLISH	BULLISH	NEUTRAL	BULLISH	NEUTRAL
26/11/2015	BULLISH	BULLISH	BULLISH	NEUTRAL	BULLISH	NEUTRAL
03/12/2015	BULLISH	NEUTRAL	BULLISH	NEUTRAL	NEUTRAL	NEUTRAL
09/12/2015	BEARISH	BULLISH	BEARISH	NEUTRAL	NEUTRAL	BEARISH
14/12/2015	BULLISH	BULLISH	NEUTRAL	NEUTRAL	BULLISH	BULLISH

Bullish: Buy, Bearish = Sell, I = no change

Date of the first publication 01/01/2006

CEE portfolio weightings

	Dez 14	Jän 15	Feb 15	Mär 15	Apr 15	Mai 15	Jun 15	Jul 15	Aug 15	Sep 15	Okt 15	Nov 15	Dez 15
Stocks	↓	↔	↔	↔	↑	↑	↑	↔	↑	↔	↑	↑	↔
Czech Rep	↑	↓	↓	↓	↑	↓	↓	↑	↑	↑	↑	↑	↑
Hungary	↔	↓	↓	↓	↓	↔	↔	↑	↑	↑	↑	↑	↑
Poland	↔	↓	↓	↓	↔	↑	↓	↓	↓	↓	↔	↓	↓
Russia	↓	↑	↔	↔	↔	↑	↑	↑	↑	↑	↑	↑	↑
Turkey	-	↑	↑	↑	↔	↔	↔	↓	↓	↓	↓	↓	↓
Croatia	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔
Romania	↔	↔	↑	↑	↑	↑	↑	↔	↔	↔	↔	↔	↑
Bonds	↑	↔	↔	↔	↓	↓	↓	↔	↓	↔	↓	↓	↔
EB USD	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔
EB EUR	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔
LCY	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔
Czech Rep	↓	↔	↔	↔	↓	↔	↔	↔	↔	↔	↔	↔	↔
Hungary	↔	↔	↔	↔	↔	↔	↔	↓	↓	↔	↑	↑	↑
Poland	↑	↔	↔	↔	↔	↔	↔	↔	↔	↔	↑	↑	↔
Romania	↔	↔	↔	↔	↑	↑	↑	↔	↔	↔	↔	↔	↑
Russia	↓	↓	↓	↔	↔	↓	↓	↑	↑	↔	↔	↔	↑
Turkey	↑	↑	↑	↔	↔	↔	↔	↔	↔	↔	↓	↓	↓
	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔

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Palfinger	4,6,22	Novatek	-
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