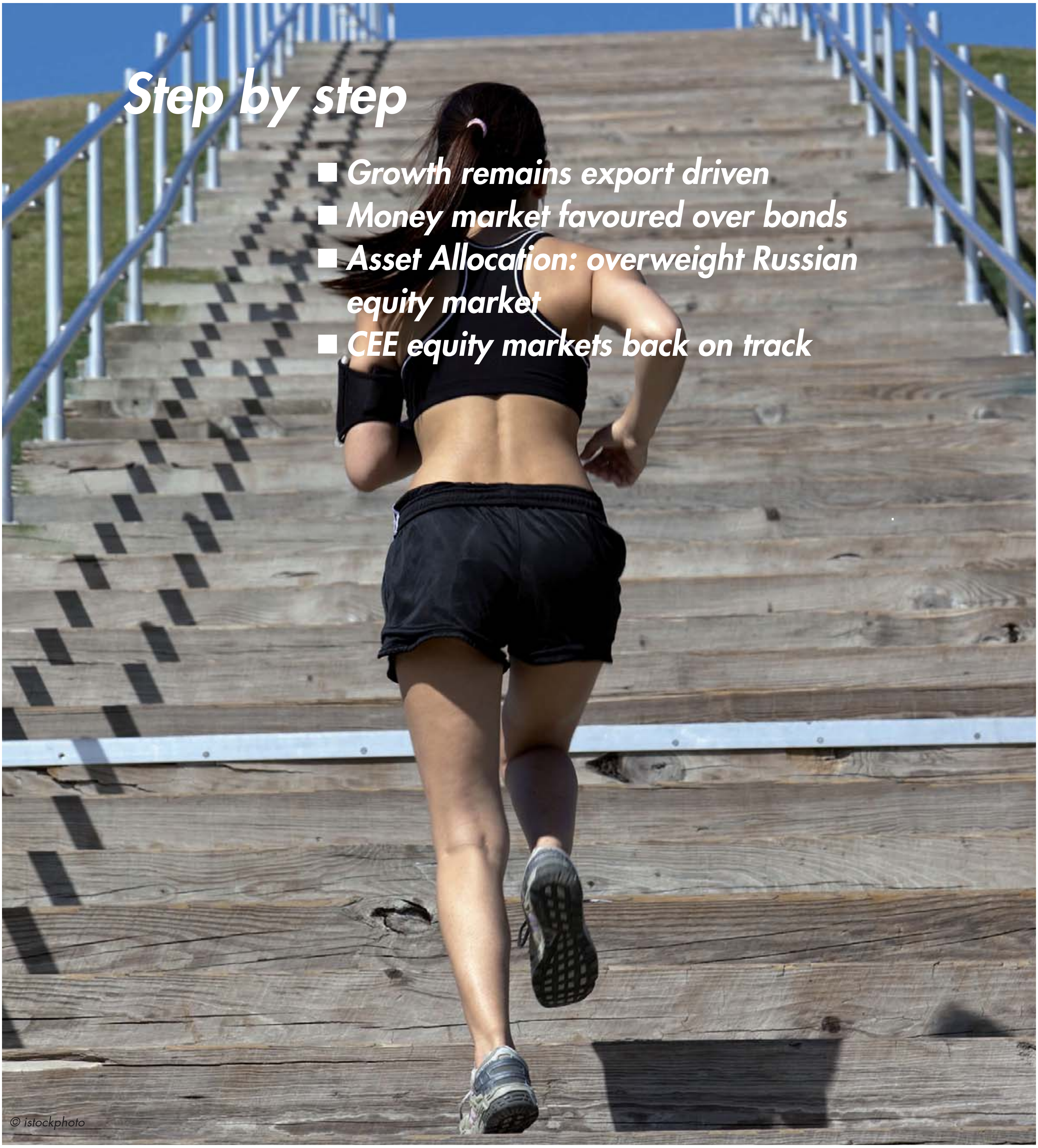
Central & Eastern European Strategy

3rd quarter 2011



Raiffeisen RESEARCH

Central & Eastern
European Strategy

Explanation:
e ... estimate
f ... forecast
p ... preliminary figures
Eurozone ... Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovenia, Slovakia, Spain
CE ... Central European countries - Poland, Hungary, Czech Republic, Slovakia, Slovenia
SEE ... South East European countries - Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Romania, Serbia
CIS ... European CIS (Commonwealth of Independent States) countries - Russia, Ukraine, Belarus
CEE ... Central and Eastern Europe (CE + SEE + CIS)

Fragmented
cumbersome economic recovery

The topics of Greece and the public debt crisis are indeed ubiquitous, but the focal points in Central and Eastern Europe lie elsewhere. Here there is justified hope that the very differentiated upswings in 2010 will broaden going forward after a transitional year in 2011. To date, all of the countries with highly competitive export economies clearly have their noses in front. Countries with close ties to Germany and German businesses in particular are enjoying expansion, which in Poland and Slovakia has already helped the economies reach their potential growth rates. By contrast, it is primarily states in South-Eastern Europe that have posted sluggish progress in the first half of 2011. Obviously the difference here is that – with the exception of the growth leaders – end-consumer domestic demand has yet to recover. We expect improvements in 2011 and exports to be overtaken in 2012 as the growth driver, which will slow markedly as European growth trends turn down. Against this backdrop our forecasts for 2011 are well supported, but looking ahead to 2012 there is a risk of overestimating domestic economic activity.

In Austria real GDP growth should come in at 3.3% in 2011, one of the strongest rates in the Eurozone, but with declining export activity and consumption spending slow to return to normal we reckon growth will fall just short of 2% in 2012. Rates of inflation across the region should fall from the second half of this year until mid-2012.

Impacts on monetary policy and currencies
The sometimes underestimated inflation will prompt other central banks in CEE to make moves on their interest rates, in addition to the European Central Bank (ECB). We feel there is a need for action in Poland and the Czech Republic in particular, while Russia is likely to reach the top of the interest rate summit in the second half of the year at 8.5%. Even in countries where rates of inflation are expected to be far lower due to base effects (Hungary, Romania), currency factors may result in key rates remaining constant until the end of the year.

Assuming that the Greek situation will calm down in the short term we anticipate a slightly stronger performance for most CEE currencies. However, the aggregate yield spreads to the Eurozone mean we refrain from recommending a buy for bonds, which applies both for Eurobonds issued in CEE as well as local government bonds.

Impact on equities markets
The encouraging first six months on the CEE stock exchanges (with the exception of Vienna and Moscow) should be followed by benign trends in the second half of the year. The current momentum of economic activity is favouring earnings growth rates in the region, most of which are sitting comfortably in double-digits. Alongside Russia we should emphasise the countries in South-Eastern Europe, which are benefiting from the low base effects caused by the recession. A provisional solution to the Greek problem should provide the index with some breathing space and generate price gains of between 7% and 10%. Although earnings growth in Austria is expected to stay robust at +31.8% (2011) and +20.9% (2012), in light of the sector weighting in the ATX we are taking a moderate approach in the summer months.

Peter Brezinschek

Recommendations* - stock markets

Indices	
Buy	MICEX, PX, WIG 20, SASX-10, CROBEX10, BUX, BET, BELEX15
Hold	ATX
Sectors	
Overweight	Energy, Industrials
Underweight	Telecommunication, Pharmaceuticals
Equities	
Buy	***OMV*** EUR 28.89**/ target price: EUR 36.00
	Conwert EUR 11.74**/ target price: EUR 14.00
	Semperit EUR 36.55**/ target price: EUR 46.00
	CEZ CZK 901.9** / target price: CZK 1,050
	Magyar Telekom HUF 580.0**/ target price: HUF 668.0

Recommendations* - debt markets

LCY bonds	
Buy	RON 5y T-bonds
Sell	CZK 10y T-bonds
Eurobonds spread trade	Sell Croatia EUR
Corporate bonds	
Buy	Halyk 7.25% due 2017, VimpelCom 9.125% due 2018

** horizon: **end 3rd quarter 2011;** ** the indicated price is the last price as available at 6.30 AM (CET) on 22 June 2011*
Source: Raiffeisen RESEARCH

Real GDP (% yoy)

Countries	2009	2010	2011e	2012f
Poland	1.7	3.8	4.1	4.5
Hungary	-6.7	1.2	2.5	3.0
Czech Rep.	-4.0	2.2	1.9	2.3
Slovakia	-4.8	4.0	4.0	4.5
Slovenia	-8.1	1.2	2.0	2.5
CE	***-1.8***	***3.0***	***3.3***	***3.7***
Croatia	-6.0	-1.2	1.0	2.0
Bulgaria	-5.5	0.2	2.5	4.0
Romania	-7.1	-1.3	1.5	3.5
Serbia	-3.5	1.8	2.8	3.0
Bosnia a. H.	-2.9	0.9	2.0	4.0
Albania	3.3	3.9	5.0	5.5
SEE	***-5.7***	***-0.4***	***1.9***	***3.3***
Russia	-7.9	4.0	4.5	4.0
Ukraine	-14.8	4.2	4.5	5.0
Belarus	0.2	7.6	6.0	4.0
CIS	***-8.2***	***4.1***	***4.5***	***4.1***
CEE	***-5.9***	***3.2***	***3.8***	***3.9***
Turkey	-4.8	8.9	6.0	4.5
Austria	***-3.9***	***2.1***	***3.3***	***2.0***
Eurozone	***-4.1***	***1.7***	***2.0***	***1.7***
USA	-2.6	2.8	2.7	2.7

Source: wiiw, Raiffeisen RESEARCH

Consumer prices (avg, % yoy)

Countries	2009	2010	2011e	2012f
Poland	3.5	2.6	4.2	2.9
Hungary	4.2	4.9	4.1	3.5
Czech Rep.	1.0	1.5	2.2	2.9
Slovakia	1.6	1.0	4.0	3.5
Slovenia	0.9	1.8	2.0	2.2
CE	***2.8***	***2.5***	***3.6***	***3.0***
Croatia	2.4	1.1	3.0	3.5
Bulgaria	2.8	2.4	4.2	3.3
Romania	5.6	6.1	6.8	4.7
Serbia	8.4	6.5	11.3	7.5
Bosnia a. H.	-0.4	2.1	4.5	2.1
Albania	2.2	3.6	4.0	3.0
SEE	***4.5***	***4.4***	***6.1***	***4.4***
Russia	11.8	6.9	9.1	7.8
Ukraine	15.9	9.4	10.0	10.0
Belarus	12.9	7.7	35.0	27.0
CIS	***12.1***	***7.1***	***10.0***	***8.6***
CEE	***8.3***	***5.3***	***7.5***	***6.3***
Turkey	6.3	8.6	6.6	6.5
Austria	***0.4***	***1.7***	***3.3***	***2.2***
Eurozone	***0.3***	***1.6***	***2.8***	***2.0***
USA	-0.4	1.6	3.1	2.2

Source: wiiw, Raiffeisen RESEARCH

Current account balance (% of GDP)

Countries	2009	2010	2011e	2012f
Poland	-2.2	-3.3	-3.3	-3.4
Hungary	0.4	2.1	2.1	2.6
Czech Rep.	-3.2	-3.8	-3.3	-3.0
Slovakia	-3.6	-3.5	-1.7	-1.2
Slovenia	-1.5	-1.1	-1.6	-1.7
CE	***-2.1***	***-2.5***	***-2.3***	***-2.2***
Croatia	-5.3	-1.3	-2.4	-2.9
Bulgaria	-8.9	-1.0	1.0	0.7
Romania	-4.2	-4.2	-4.5	-5.1
Serbia	-6.9	-7.0	-8.6	-8.1
Bosnia a. H.	-6.2	-5.2	-6.4	-7.2
Albania	-15.6	-10.3	-11.0	-9.0
SEE	***-5.9***	***-3.8***	***-4.2***	***-4.5***
Russia	4.1	6.1	6.7	4.7
Ukraine	-1.6	-2.1	-2.5	-2.8
Belarus	-13.0	-15.5	-11.7	-15.1
CIS	***3.0***	***4.8***	***5.3***	***3.5***
CEE	***0.4***	***1.4***	***1.8***	***0.7***
Turkey	-2.3	-6.6	-10.3	-9.7
Austria	***3.1***	***2.5***	***4.5***	***3.5***
Eurozone	***-0.3***	***-0.4***	***-0.5***	***-0.5***
USA	-2.7	-3.2	-3.0	-2.7

Source: wiiw, Raiffeisen RESEARCH

General budget balance (% of GDP)

Countries	2009	2010	2011e	2012f
Poland	-7.2	-7.8	-5.3	-3.2
Hungary	-4.4	-4.3	1.5	-3.6
Czech Rep.	-5.8	-4.7	-4.5	-3.8
Slovakia	-8.0	-7.9	-4.9	-4.1
Slovenia	-5.5	-6.0	-5.5	-5.0
CE	***-6.5***	***-6.6***	***-4.1***	***-3.6***
Croatia	-4.1	-4.9	-5.5	-4.8
Bulgaria	-0.8	-3.9	-2.6	-2.1
Romania	-8.5	-6.4	-5.0	-4.0
Serbia	-4.3	-4.8	-4.0	-3.0
Bosnia a. H.	-4.5	-4.0	-3.4	-3.0
Albania	-7.0	-5.7	-5.6	-5.5
SEE	***-5.9***	***-5.5***	***-4.6***	***-3.8***
Russia	-6.3	-4.1	-0.8	-0.2
Ukraine	-8.7	-7.5	-3.5	-2.5
Belarus	-0.7	-2.6	-4.0	-3.0
CIS	***-6.3***	***-4.3***	***-1.1***	***-0.5***
CEE	***-6.3***	***-5.2***	***-2.5***	***-1.9***
Turkey	-5.5	-3.7	-3.0	-2.5
Austria	***-4.1***	***-4.6***	***-3.9***	***-3.3***
Eurozone	***-6.3***	***-6.0***	***-4.3***	***-3.5***
USA	-12.7	-10.6	-10.8	-7.5

Source: wiiw, EU Commission, Raiffeisen RESEARCH

Exchange rate EUR/LCY (avg)

Countries	2009	2010	2011e	2012f
Poland	4.33	3.99	3.88	3.75
Hungary	280.1	275.5	266.2	265.0
Czech Rep.	26.4	25.3	24.3	23.4
Croatia	7.34	7.29	7.40	7.42
Bulgaria	1.96	1.96	1.96	1.96
Romania	4.24	4.21	4.17	4.08
Serbia	93.9	103.0	102.9	105.4
Bosnia a. H.	1.96	1.96	1.96	1.96
Albania	132.1	137.8	140.5	141.0
Russia	44.3	40.3	40.9	37.8
Ukraine	11.17	10.54	11.50	10.30
Belarus	3894	3951	6600	8500
Turkey	2.18	2.00	2.30	2.08
USA	1.39	1.33	1.46	1.30

Source: wiiw, Raiffeisen RESEARCH

Exchange rate forecasts

Countries	21-Jun*	Sep-11	Dec-11	Jun-12
vs EUR				
Poland	3.98	3.85	3.80	3.90
Hungary	267.0	265.0	265.0	275.0
Czech Rep.	24.2	24.2	24.0	23.8
Croatia	7.38	7.40	7.45	7.38
Romania	4.24	4.15	4.10	4.15
Serbia	100.4	104.0	106.0	106.0
Albania	141.0	140.5	142.1	140.0
vs USD				
Russia	28.0	27.1	27.3	29.3
Ukraine	7.99	7.95	7.90	7.90
Belarus	4985	5500	6000	6500
Turkey	1.61	1.58	1.55	1.65
EUR/USD	1.44	1.50	1.45	1.30

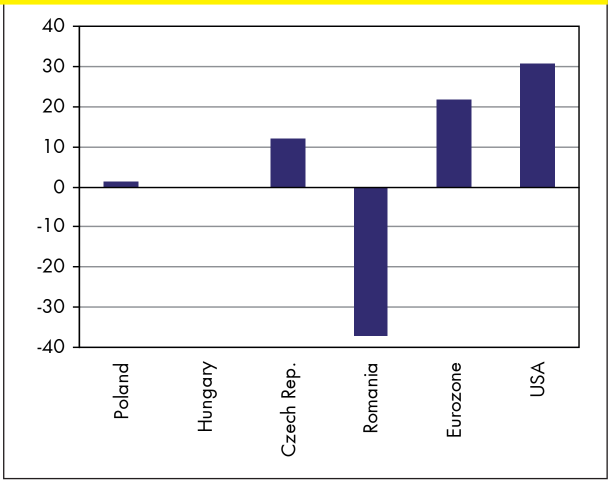
** 5:00 p.m. (CET)*
Source: wiiw, Raiffeisen RESEARCH

Yield forecast

Countries	21-Jun*	Sep-11	Dec-11	Jun-12
Poland	5.9	6.0	6.0	6.0
Hungary	7.1	7.1	6.9	7.0
Czech Rep.	3.8	3.9	3.9	3.9
Romania	7.4	7.0	6.9	6.9
Russia	8.3	8.0	7.7	7.6
Turkey	9.4	9.8	10.5	10.3
Austria	3.5	3.6	3.7	3.6
Eurozone	3.0	3.2	3.3	3.2
USA	3.0	3.3	3.5	3.7

** 5:00 p.m. (CET)*
Yields of 10y local currency government bonds
Source: Thomson Reuters, Raiffeisen RESEARCH

Expected yield change



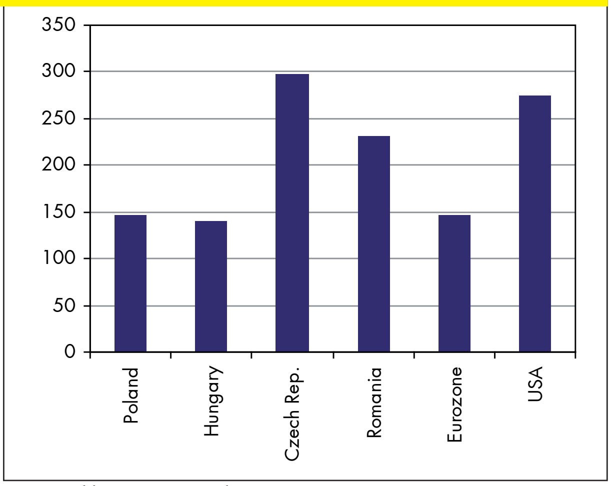
Bp-change of LCY gov. bond yield in next 3 months
Source: Thomson Reuters, Raiffeisen RESEARCH

Interest rate forecast

Countries	21-Jun*	Sep-11	Dec-11	Jun-12
Poland	4.50	4.75	4.75	4.75
Hungary	6.00	6.00	6.00	5.75
Czech Rep.	0.75	1.00	1.25	1.75
Romania	6.25	6.25	6.25	6.25
Russia	8.25	8.50	8.50	8.00
Turkey	6.25	6.50	7.25	7.50
Eurozone	1.25	1.75	2.00	2.00
USA	0.13	0.25	0.25	0.75

** 5:00 p.m. (CET)*
Key interest rates
Source: Thomson Reuters, Raiffeisen RESEARCH

Yield structure



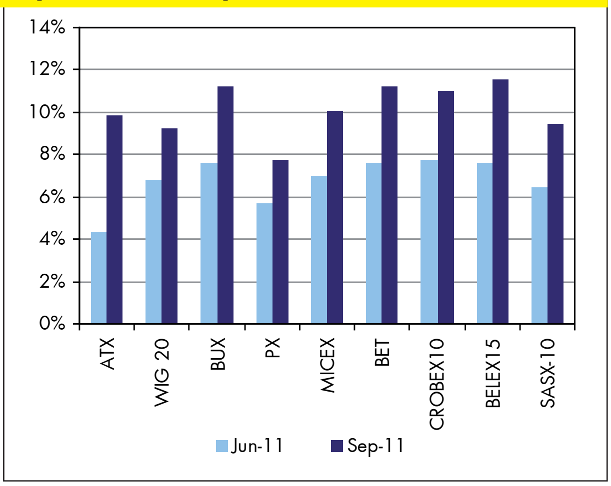
Bp-spread between 3m and 10y maturities
Source: Thomson Reuters, Raiffeisen RESEARCH

Stock market indicators

	Earnings growth		Price/earnings ratio	
	2011e	2012f	2011e	2012f
ATX	31.8%	20.9%	12.0	9.9
WIG 20*	19.5%	5.0%	11.0	10.5
BUX	13.1%	11.3%	9.9	8.9
PX**	3.8%	4.6%	11.6	11.1
MICEX***	27.4%	6.5%	6.6	6.2
BET****	13.4%	20.0%	10.5	8.8
CROBEX10	41.0%	17.4%	9.4	8.0
BELEX15*****	7.7%	8.3%	7.6	7.0
SASX-10	16.2%	20.4%	17.1	14.2

** Poland (WIG 20): excl. CEZ and PZU; ** Czech Rep. (PX): excl. Erste Group and Vienna Insurance Group; *** Russia (MICEX): excl. Inter RAO, Sberbank Pref. and Surgutneftegaz Pref.; **** Romania (BET): excl. BVB and SSIF Broker; ***** Serbia (BELEX15): excl. Alfa Plam, Aerodrom, Imlek, Jubmes Banka, NIS, Tigar and Veterinarski*
Source: Thomson Reuters, IBES, Bloomberg, Raiffeisen RESEARCH

Expected index performance



Source: Raiffeisen RESEARCH

Stock market forecasts

	21-Jun*	Sep-11	Dec-11	Jun-12
ATX	2,731	2,850	3,000	2,850
WIG 20	2,837	3,030	3,100	2,930
BUX	22,483	24,200	25,000	23,200
PX	1,230	1,300	1,325	1,270
MICEX	1,635	1,750	1,800	1,700
BET	5,574	6,000	6,200	5,700
CROBEX10	1,216	1,310	1,350	1,250
BELEX15	762	820	850	790
SASX-10	1,005	1,070	1,100	1,020

** 11:59 p.m. (CET)*
In local currency
Source: Raiffeisen RESEARCH

Positive expected outlook
for equities not confirmed

Sum of last quarter*

RBI portfolio (in EUR)		-0.28%
Benchmark (in EUR)		0.04%
RBI outperformance (in EUR)		-0.32%
by	weighting of equities vs. bonds	-0.21%
	regional equity weightings	-0.11%
	weighting of Eurobonds vs. LCY bonds	-0.01%
	country weightings of LCY bonds	0.02%
	country weightings of Eurobonds EUR	0.00%
	country weightings of Eurobonds USD	0.00%
	joint effects / duration	-0.02%

** 25.03.2011 - 21.06.2011*
Source: Raiffeisen RESEARCH

Period 1: 25.03.2011 - 28.04.2011

RBI portfolio (in EUR)		1.73%
Benchmark (in EUR)		1.83%
RBI outperformance (in EUR)		-0.10%
by	weighting of equities vs. bonds	0.02%
	regional equity weightings	-0.12%
	weighting of Eurobonds vs. LCY bonds	0.00%
	country weightings of LCY bonds	0.02%
	country weightings of Eurobonds EUR	0.00%
	country weightings of Eurobonds USD	0.00%
	joint effects / duration	-0.01%

Source: Raiffeisen RESEARCH

Period 2: 28.04.2011 - 25.05.2011

RBI portfolio (in EUR)		-2.94%
Benchmark (in EUR)		-2.71%
RBI outperformance (in EUR)		-0.23%
by	weighting of equities vs. bonds	-0.24%
	regional equity weightings	0.00%
	weighting of Eurobonds vs. LCY bonds	0.00%
	country weightings of LCY bonds	0.00%
	country weightings of Eurobonds EUR	0.00%
	country weightings of Eurobonds USD	0.00%
	joint effects / duration	0.00%

Source: Raiffeisen RESEARCH

Period 3: 25.05.2011 - 21.06.2011

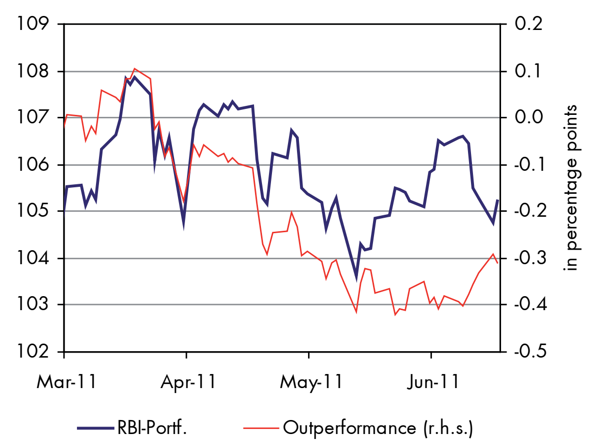
RBI portfolio (in EUR)		1.00%
Benchmark (in EUR)		0.98%
RBI outperformance (in EUR)		0.02%
by	weighting of equities vs. bonds	0.01%
	regional equity weightings	0.01%
	weighting of Eurobonds vs. LCY bonds	-0.01%
	country weightings of LCY bonds	0.00%
	country weightings of Eurobonds EUR	0.00%
	country weightings of Eurobonds USD	0.00%
	joint effects / duration	0.00%

Source: Raiffeisen RESEARCH

In the second quarter the CEE portfolio continued to lag behind the performance of the global portfolio. Over the last three weighting periods the underperformance slipped from 4 to 31bp.
At the beginning of the second quarter we attempted to profit from the lower prices, positive economic data and rising corporate earnings, and therefore weighted equities five percentage points above the benchmark. Russia was favoured, first and foremost due to the positive effects of the oil prices on local companies and the Russian economy as a whole, together with Romania and the Czech Republic. Nevertheless, this equities weighting did not prove to be as lucrative as anticipated and pushed the CEE portfolio to underperform against the benchmark by 30bp.
Despite the elevated risks for the global economy we persisted with the overweighting of equities in the second weighting period due to the still robust economic leading indicators and the encouraging reporting season. We assumed that the positive data emanating from the corporate sector, the high liquidity and the positive economic figures would continue to enjoy the upper hand. However, the portfolio was forced to swallow another underperformance against the benchmark on account of price corrections on the equities market. The scant improvement in public finances in Europe, the lower risk with government bonds and the technical indicators suggesting more price corrections in the short term prompted us to abandon the overweighting of equities and switch to an overweighting of bonds by five percentage points. We completely withdrew the underweighting of the Czech Republic, and by underweighting Hungary by two percentage points we financed an overweighting of Poland and Russia in the last weighting period.

Veronika Lammer

Performance 2010



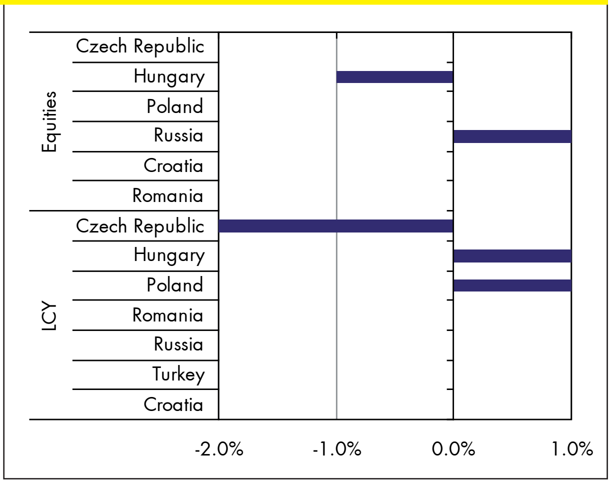
Source: Raiffeisen RESEARCH

CEE equities markets remain at low level

No long-term solution has yet been found for the risks of the countries on the Eurozone periphery. This produces a short-term risk for the stock indices of Eurozone countries and the euro itself. The weak economic ties of Eastern European countries with Greece and the fact that the upturn in economic activity in CEE is only just getting started suggest that price gains are on the cards in the next quarter for the equities markets in Eastern Europe. The minimal exposure of Eastern European banks to Greece gives another indication that CEE equities are likely to outperform the shares of Eurozone countries. Poland managed to post growth of 4.4% in the first quarter compared to the same period in the previous year, boosted by an increase in consumption and investment driven first and foremost by public spending. Generally speaking we expect to see rising growth rates in Eastern Europe compared to 2010, which we predict will grow further in 2012. The current interest rate and the relatively healthy state of public finances in CEE are arguments in favour of stable bond developments. However, it is not possible to disengage from the risk components triggered by the debt crisis, and therefore caution is the order of the day for the time being. All told this prompts us to adopt a neutral weighting between the equity and bond markets. The good prospects for CEE are reflected in an overweighting of CEE versus the Eurozone in our global portfolio.

Albert Moik

Over-/underweight



Source: Raiffeisen RESEARCH

RBI portfolio weightings

	RBI	BM	Deviation
Equities	50.0%	50.0%	0.0%
Czech Republic	15.0%	15.0%	0.0%
Hungary	11.0%	12.0%	-1.0%
Poland	25.0%	25.0%	0.0%
Russia	41.0%	40.0%	1.0%
Croatia	3.0%	3.0%	0.0%
Romania	5.0%	5.0%	0.0%
Bonds	50.0%	50.0%	0.0%
LCY	***80.0%***	***80.0%***	***0.0%***
Czech Republic	18.0%	20.0%	-2.0%
Hungary	21.0%	20.0%	1.0%
Poland	46.0%	45.0%	1.0%
Romania	5.0%	5.0%	0.0%
Russia	5.0%	5.0%	0.0%
Turkey	5.0%	5.0%	0.0%
Croatia	0.0%	0.0%	0.0%
EB USD	***10.0%***	***10.0%***	***0.0%***
EB EUR	***10.0%***	***10.0%***	***0.0%***

Source: Raiffeisen RESEARCH

Historical volatility & performance

	Volatility		Performance	
Countries	***Equities***	***Bonds***	***Equities***	***Bonds***
Czech Republic	16.6%	5.7%	8.4%	2.6%
Hungary	24.6%	11.1%	13.5%	10.4%
Poland	18.4%	8.5%	1.5%	-0.9%
Romania	24.4%	3.3%	30.7%	4.5%
Russia	21.3%	8.4%	10.1%	4.9%
Turkey	-	12.6%	-	-6.8%
Croatia	12.5%	2.9%	6.8%	2.0%
CEE	***15.8%***	***5.3%***	***9.0%***	***2.1%***
Eurobonds	***EUR***	***USD***	***EUR***	***USD***
Hungary	3.1%	4.0%	5.7%	5.3%
Poland	2.5%	2.0%	-0.7%	1.0%
Romania	1.8%	-	2.0%	-
Russia	-	3.4%	-	2.6%
Turkey	2.7%	5.9%	-1.1%	-1.6%
Croatia	3.0%	-	2.1%	-
Bulgaria	3.4%	2.3%	0.7%	1.0%
Ukraine	6.8%	5.3%	3.6%	2.9%
Georgia	-	3.9%	-	3.3%
Kazakhstan	-	3.3%	-	3.9%
Lithuania	1.8%	-	1.5%	-
Serbia	-	1.7%	-	3.0%
CEE-EB	***1.1%***	***10.0%***	***0.7%***	***6.2%***

Volatility in EUR; 3 months volatility annualised; ytd performance in EUR
Source: Thomson Reuters, Raiffeisen RESEARCH

Conservative country weighting

Expected bond market performance (in %)

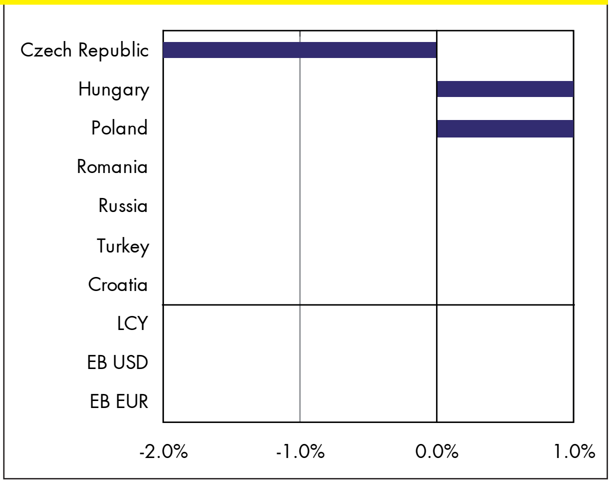
in EUR				
Sep-11	10Y	5Y	2Y	weighted*
Czech Republic	0.3	0.3	0.4	0.3
Hungary	3.1	2.0	1.6	2.2
Poland	5.1	3.0	3.0	3.7
Romania	6.9	5.6	3.9	5.5
Russia	1.9	1.5	0.4	1.3
Turkey	-	-0.5	-0.3	-0.4
Croatia	1.2	0.8	-	1.0
Eurobonds		**Duration**		**Performance**
Polen (A-)	EUR	5.8		-1.9
	USD	4.5		-1.9
Litauen (BBB)	EUR	2.9		-1.7
Ungarn (BBB-)	USD	4.2		-3.2
Bulgarien (BBB)	EUR	1.7		-0.8
Russland (BBB)	EUR	5.8		-0.6
Kroatien (BBB)	EUR	3.0		-1.8
Rumänien (BB+)	USD	3.4		-1.9
Serbien (BB-)	EUR	5.0		0.6
Türkei (BB)	EUR	4.7		-1.0
	USD	7.6		-1.3
Ukraine (B-)	EUR	3.8		-0.3
	USD	4.0		-0.5

Performance for next three month not annualised
** weighted according by duration according to RBI portfolio*
Source: Raiffeisen RESEARCH

The debt crisis in Europe is currently a ubiquitous issue and it will stay that way in the weeks to come. While preparations are in place for the financing of Greece beyond July, these have yet to be given the green light. We reckon the CEE bond markets should perform well as long as a default can be avoided. The ties with Greece are rather marginal and we are positive on Polish government bonds, which should benefit in the coming months from a stronger zloty. Further arguments advocating Polish government bonds include the stable public finances and the high interest rate compared to the Eurozone. The anticipated interest rate hikes are also likely to be broadly priced in already, which means any yield increase will be moderate. Similarly to Poland, Hungarian government bonds should also profit from an appreciation of the local currency vis-à-vis the euro. And the improvement in Hungarian public finances is also likely to be confirmed. Then we have the Czech Republic. The comparatively low interest spread to the Eurozone and the high budget deficit that is likely to be slow in normalising are two reasons for our sceptical position here. There also seem to be no positive impulses for Czech government bonds coming from currency-related factors either. All in all, we are financing with an underweighted Czech Republic an overweighting for Poland and Hungary.

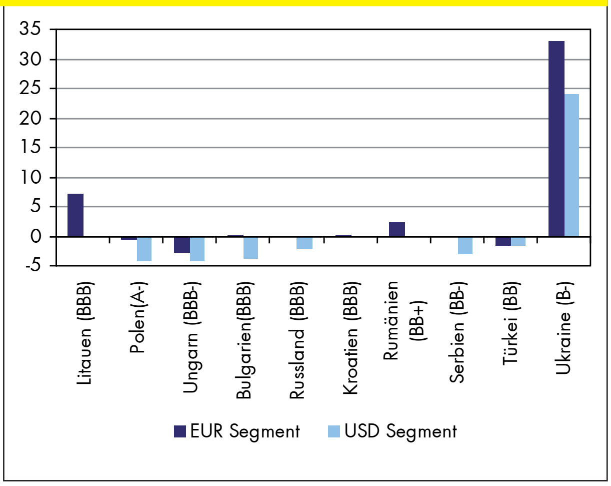
Albert Moik

Over-/underweight regions*



** local currency bonds; deviation of RBI portfolio from benchmark in percentage points*
Source: Raiffeisen RESEARCH

Historical relative performance*



** to BM, EMBIG EUR Europe, EMBIG USD Europe, in % yoy*
Source: Thomson Reuters, Raiffeisen RESEARCH

Russian equities
overweighted

The debt problems in the eurozone have weighed down on international risk sentiment in recent weeks, and the equities markets in Eastern Europe have come under some pressure too. The situation in Greece is set to accompany us for a while longer, which is why we assume volatility will remain elevated on the international financial markets. In spite of the higher global uncertainty we anticipate an above-average performance from the Russian equities market and therefore overweight it. The price of oil is likely to remain stuck at a high level, enabling the energy companies in the index to post higher earnings results. Then we have the low P/E in comparison to other countries of the region, which is expected to come in at 6.6 for 2011. The average for the Eastern European equity markets is 7.8. In our view, the low price level at present should be used for buying. Given the renewed contraction in economic activity, however, we are keeping this position quite low at one percent, and financing it with an underweighting of Hungarian equities. Corporate results were rather a mixed bag than positive, while growth expectations for 2012 are also at the lower edge of the range for the region. What is more, both the Hungarian forint and the Hungarian equities market are heavily dependent on international investor sentiment, which makes this market rather vulnerable. The performances of other Eastern European equity markets are not likely to generate above-average earnings, so they are left at neutral.

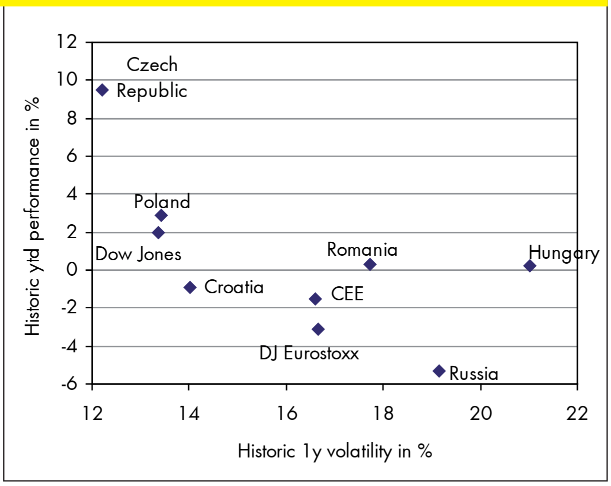
Nina Kukic

Expected stock market performance (in %)

Countries	EUR Sep-11	EUR Dec-11	USD Sep-11	USD Dec-11
Poland	10.4	14.4	12.8	15.3
Hungary	8.3	11.8	10.6	12.7
Czech Republic	5.9	8.9	8.2	9.7
Russia	5.9	11.8	8.2	12.7
Romania	10.1	15.2	11.8	14.8
Croatia	7.5	10.0	9.6	10.7

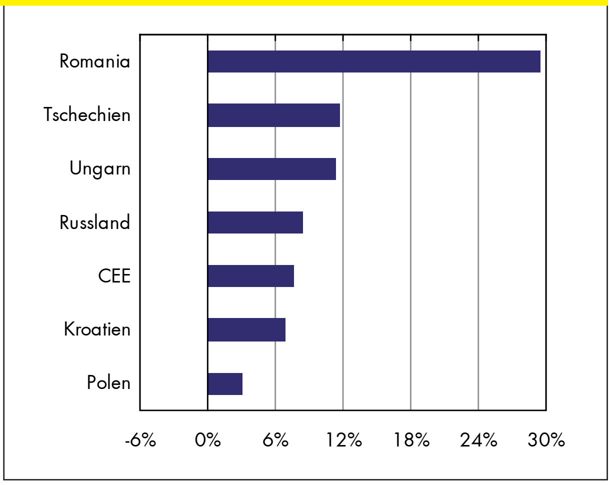
Performance for next three month not annualised
All performance figures based on index values as of cut-off date
Source: Raiffeisen RESEARCH

Risk-return (in %)



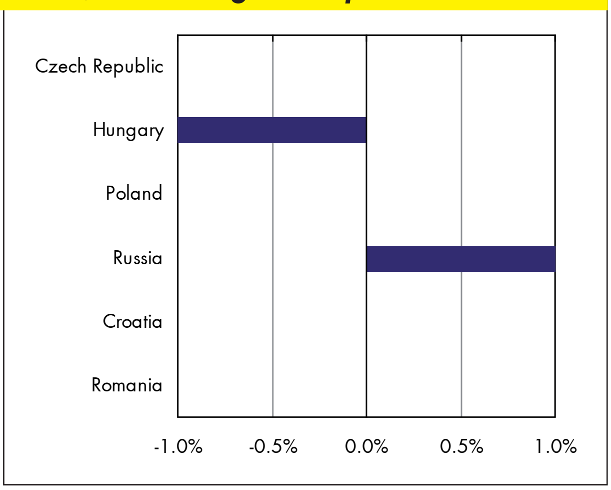
In LCY, in last three months
Source: Thomson Reuters, Raiffeisen RESEARCH

Performance last three months (in %)



In EUR, in %, last three months
Source: Thomson Reuters, Raiffeisen RESEARCH

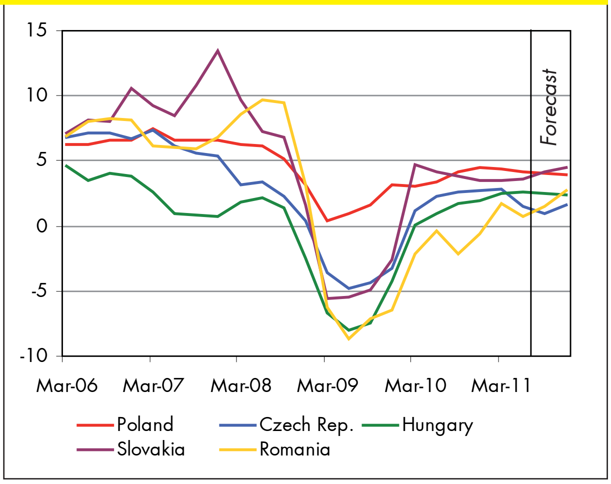
Over-/underweight in equities



Deviation of RBI portfolio from benchmark in percentage points
Source: Raiffeisen RESEARCH

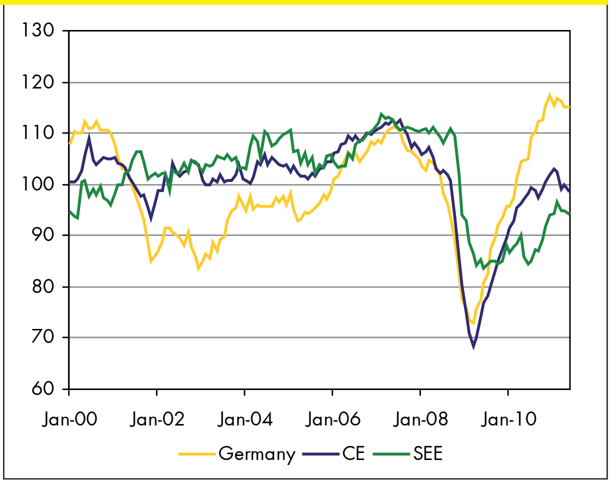
If the Eurozone coughs
can CEE resist getting a cold?

Real GDP growth (% yoy)



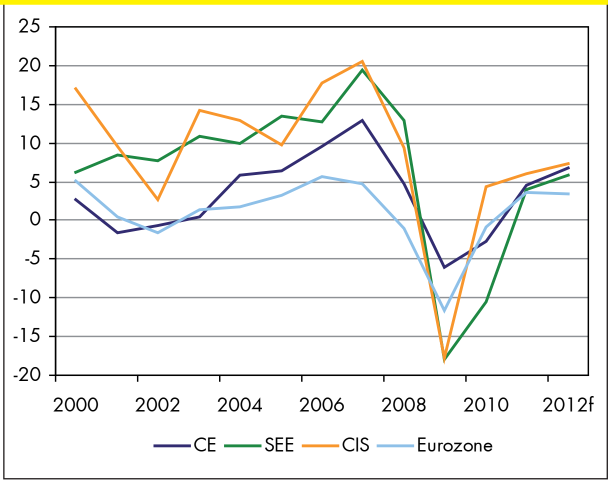
Source: Bloomberg, Raiffeisen RESEARCH

Recovery of economic sentiment



Source: Eurostat

Gross fixed capital formation (real, % yoy)



Source: Statistical office, Raiffeisen RESEARCH

Given the current development of leading indicators on the established markets in the Eurozone and the USA there is a growing fear about the sustainability of the economic recovery in CEE (see graph 2). With the CEE region currently displaying a robust recovery, any slowdown in growth from the established markets could have a significant impact on the CEE economies. This is due to the fact that until now most CEE countries have profited from strong export growth towards the Eurozone, while their domestic demand and investments are lagging behind and are not contributing much to GDP growth. Even though our assumption for the Eurozone's economic development in 2011-2012 remains moderately optimistic, the risks for a more severe slowdown are obvious. We therefore want to take a look at the sustainability of economic growth in some CEE countries and give an indication about whether these countries could manage to decouple themselves from the Eurozone and generate enough domestically-driven support for their economic growth. For this short analysis we have chosen some CEE countries (Poland, the Czech Republic, Slovakia, Hungary as well as Romania) with different economic trends and growth compositions.

Poland is the country that stood out the most during the recent financial crisis. With its strong domestic demand Poland was able to withstand the effects of the recession in the Eurozone. This was because the Polish economy is largely independent from the export sector and only had an export to GDP coefficient of about 33% in 2008 (see graph 5). Comparing this to other economies in CEE, such as the smaller and more open economies of Slovakia, the Czech Republic or Hungary, the differences become obvious. Slovakia in 2008 had a share of exports to GDP of 74%, Hungary of 72% and the Czech Republic of 66%. These economies therefore could not counter the negative effects from the development in the Eurozone as they relied heavily on exports, and accordingly ended up in severe recessions. In this respect Hungary proved to be a special case, as prior to the crisis it had experienced a severe economic adjustment with austerity measures and tax increases leading to a significant depression of domestic demand as early as 2007.
While Romania is comparable to Poland in terms of its exports to GDP ratio, the difference lies in the lack of purchasing power of the Romanian private sector as well as the huge imbalances in Romania before the crisis. While Poland had to finance a fairly small current account deficit in the years prior to the crisis

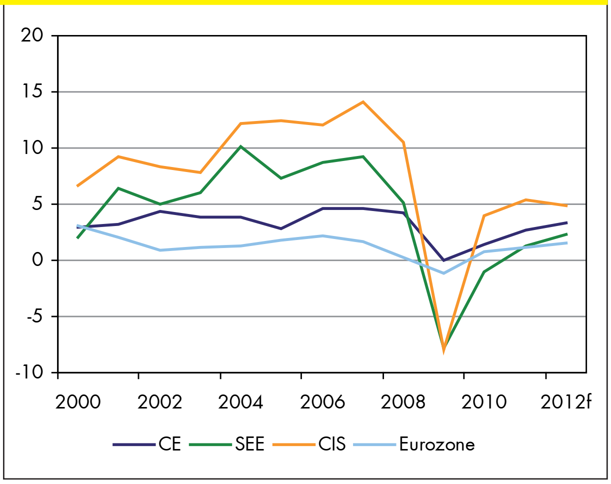
(2000-2008) of 3.4% on average, Romania had an average current account deficit of 7.5%, peaking at 11.5% in 2008. Clearly, domestic consumption power in Romania was not able to counter the economic shock of the financial crisis in the same way as Poland.

Taking a look ahead, something that certainly holds true for the entire region is the fact that government consumption will not contribute heavily to economic growth in the coming years. Even though the indebtedness of the region compared with the Eurozone seems comfortable (with the exception of Hungary), there is little to no leeway for stronger government consumption. Higher budget deficits due to lower tax incomes, rising unemployment and the sluggish economic recovery are also partially counterbalanced by rising tax burdens that dampen domestic demand. Even though we are projecting a pick-up in gross fixed capital formation (graph 3) as well as household consumption growth (graph 4) in the coming years, we have to bear in mind that this is coming from low levels after the significant declines in 2009 and 2010. And even with this base effect, our projections are well below pre-crisis growth rates, showing only a moderate improvement. All in all the recovery in these segments will not be able to make up for any stronger decline in exports that would occur in the case of a renewed economic slowdown in the Eurozone. It should also be noted that investments into the CEE region largely come from the Eurozone, and would therefore be negatively affected in such a case, too.

Given these facts the assumption that the CEE region could withstand an economic slowdown of the Eurozone seems more than questionable. Even though we see indications of a recovery that should shift in the coming months and years from export-driven growth to more balanced growth, the economic recovery will continue to rely on external factors from the Eurozone. While CEE countries with a larger domestic demand base may be able to counter some negative external effects more efficiently than smaller and less diversified economies in the future, the overall region will continue to depend on economic trends in the Eurozone, and especially Germany, given their strong reliance on exports (see Graph 6). We will therefore have to keep a close eye on the further development of the Eurozone, as CEE will not only mirror the chances stemming from continued convergence but also the risks of a slowdown in growth.

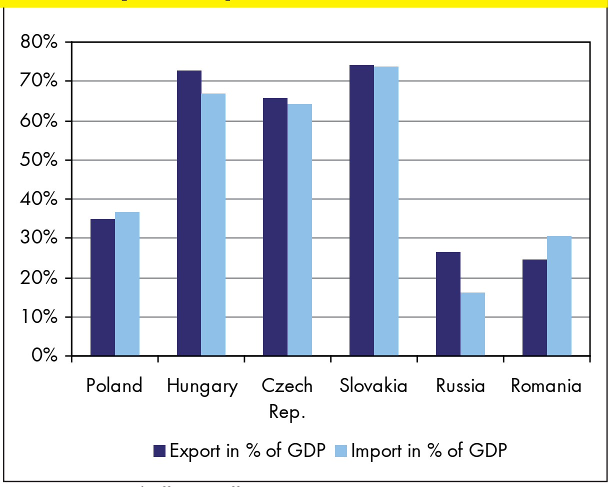
Wolfgang Ernst

Household consumption (real, % yoy)



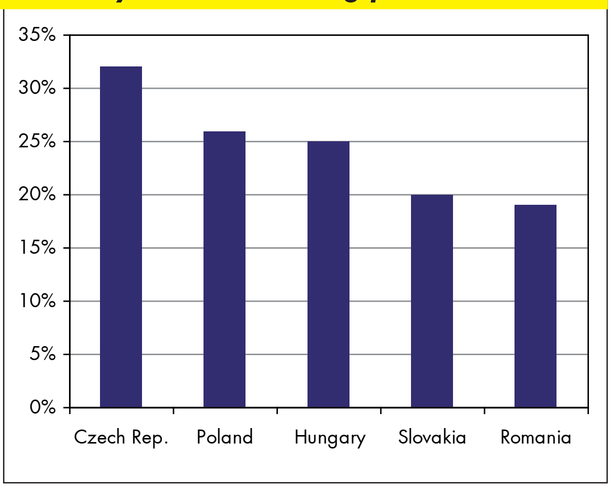
Source: Statistical office, Raiffeisen RESEARCH

Reliability on Exports



Source: Statistical office, Raiffeisen RESEARCH

Germany as main trading partner*

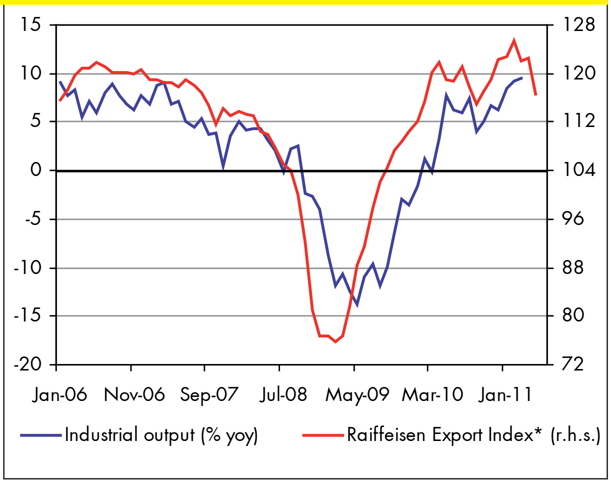


** Exports to Germany in percent of total exports*
Source: wiiw, Raiffeisen RESEARCH

Growth momentum still intact

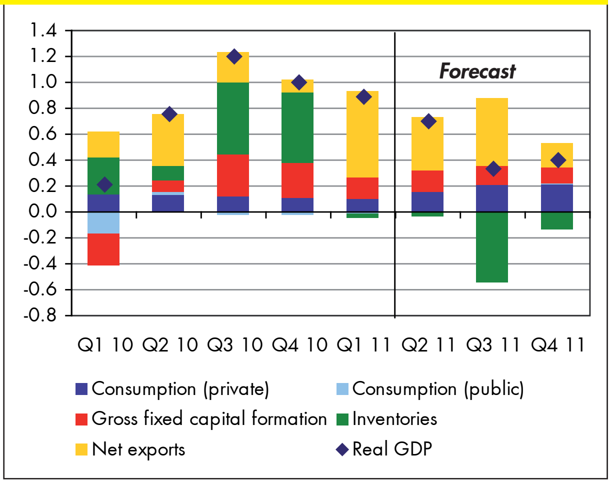
Labour market is in prime condition

Global growth environment slows down



** leading indicators of Austria´s most important trading partners weighted by their shares in exports*
Source: Thomson Reuters, Statistics Austria, Raiffeisen RESEARCH

Contribution to overall GDP growth*



** yoy, in percentage points*
Source: Thomson Reuters, Raiffeisen RESEARCH

As in the final quarter of last year, the Austrian economy showed no signs of weakness in the first quarter of 2011. With a growth rate of 0.9% compared to the previous quarter the expansion slowed only marginally (Q4 2011: 1.0% qoq), which means that Austria is one of the front-runners in the Eurozone. The main driver behind this robust growth was the export sector (2.6% qoq), where Austrian exporters have benefited from the encouraging development in the neighbouring country of Germany, its main trading partner. Admittedly though, the leading indicators of the main trading partners suggest that growth dynamics in these countries are slowing down, which is likely to be reflected in weaker export growth too. With a growth rate of 0.8% qoq, gross fixed capital formation not only grew by more than its long-run average, but also constituted a driving force behind overall GDP growth in Q1. Thus, in view of the continued rise in capacity utilisation in the industrial sector, we assume that the investment backlog will ensure continually strong investment growth in the next few quarters. The ongoing robust economic activity will also have an impact on the annual GDP growth rate, which we see at 3.3% in 2011. Against this backdrop, private consumption should perform well throughout the rest of the year after growth in the first quarter came in merely at roughly the same rate as in the fourth quarter (0.2% qoq).

Additional support for consumption should come from the labour market, as Austria´s unemployment rate of just 4.2% (April) is among the lowest in the Eurozone. Hence for 2011 as a whole we believe the lagging nature of labour demand will facilitate a further decline to 4.0%. Nonetheless, employees

Key economic figures and forecasts

	2009	2010	2011e	2012f
Real GDP (% yoy)	-3.9	2.1	3.3	2.0
Private consumption (% yoy)	1.2	1.0	1.1	1.7
Gross fixed capital formation (% yoy)	-7.8	-0.9	3.9	2.5
Nominal exports (% yoy)	-15.1	12.2	13.1	7.7
Nominal imports (% yoy)	-12.2	10.0	11.2	6.6
Trade balance (EUR bn)	7.0	10.2	13.7	16.2
Current account balance (EUR bn)	8.5	7.1	13.5	10.9
General budget balance (EUR bn)*	-11.2	-13.1	-11.7	-10.3
General budget balance (% of GDP)*	-4.1	-4.6	-3.9	-3.3
Unemployment rate (avg, %, EU definition)	4.8	4.4	4.0	3.8
Consumer prices (avg, % yoy)	0.4	1.7	3.3	2.2
Real wages (% yoy)	0.4	0.0	-0.8	1.0
Unit labour costs (% yoy)	4.5	0.2	0.7	2.2

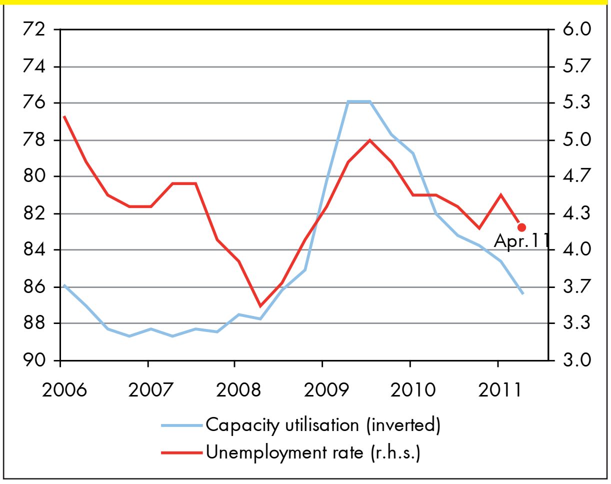
** state, provinces, municipalities and social security authorities*
Source: Statistics Austria, Thomson Reuters, Raiffeisen RESEARCH

should not get their hopes up of seeing any growth in real wages, although nominal wages should increase. This is because the recent steep rise in inflation (HICP) is eating up any nominal wage increases: at 3.7% yoy inflation reached a cyclical high in April and stayed there in May as well. We do not expect a sustainable reversal of this trend until late autumn, which is to a large extent owed to the base effect (sharp increases mom in February and March).

The positive trends in economic activity and employment fuelled by exports are reflecting the solid competitiveness of Austrian companies, as Austria is structurally well-positioned when compared to other countries of the Eurozone. The Austrian labour market, for instance, is more flexible than often assumed, which is confirmed by a country ranking from the World Bank. It shows that the rigidities on the Austrian labour market are relatively low when compared to other countries in the Eurozone. Austria also has a leading position in Europe in terms of the (gross) employment rate, i.e. the share of the working population relative to the total population. Thus, the Austrian labour market is relatively well positioned. That said, there are structural deficits in other areas that must be tackled by the Austrian government. As another ranking constructed by the World Bank that measures the various barriers to start and run a company shows, Austria finds itself in the mid-table of all Eurozone countries.

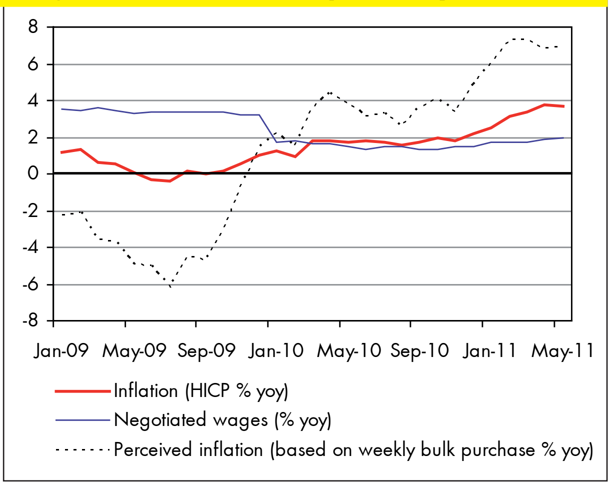
Matthias Reith

Labour market improvement remains intact



Source: Thomson Reuters, Raiffeisen RESEARCH

Wage increases are outpaced by inflation



Source: Thomson Reuters, Raiffeisen RESEARCH

GDP demand

Change (% yoy)*	*2009*	*2010*	*2011e*	*2012f*
Private consumption	1.2	1.0	1.1	1.7
Public consumption	0.4	-0.5	-0.2	0.3
Gross fixed capital formation	-7.8	-0.9	3.9	2.5
Equipment	-11.0	1.9	9.0	3.0
Construction	-6.0	-2.9	-0.5	2.0
Exports (broad definition)	-15.4	10.3	9.5	5.4
Imports (broad definition)	-12.5	8.2	7.6	4.3
Gross domestic product	-3.9	2.1	3.3	2.0

** at previous year's prices*
Source: Statistics Austria, Raiffeisen RESEARCH

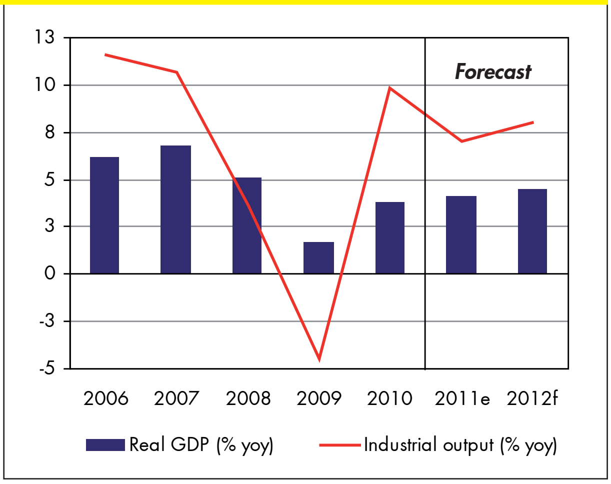
GDP supply

Change (% yoy)*	*2009*	*2010*	*2011e*	*2012f*
Agriculture & forestry	-4.3	0.1	0.0	0.0
Prod. of goods/mining	-14.1	6.7	7.0	3.7
Energy/water supply	5.8	-1.0	7.0	3.7
Construction	-5.4	-6.4	-0.5	1.0
Trade	-1.4	2.8	2.5	3.0
Accom. & restaurant trade	-2.5	-1.9	2.5	2.2
Traffic and inform. services	-9.1	0.7	5.0	2.0
Credit and insurance	5.8	9.2	3.0	2.5
Property & business services	-2.5	2.1	3.5	2.8
Public sector	0.2	1.4	0.5	0.5
Other services	-0.5	1.7	4.2	2.0
Gross domestic product	-3.9	2.1	3.3	2.0

** at previous year´s prices*
Source: Statistics Austria, Raiffeisen RESEARCH

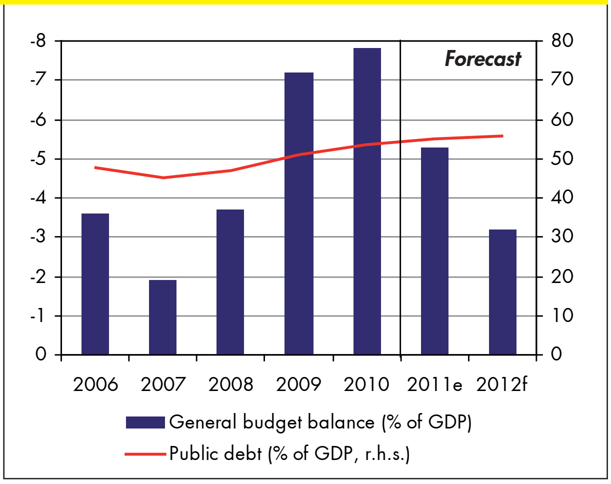
Churning along nicely
despite lack of structural reforms

Real GDP (% yoy)



Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

General budget balance and public debt



Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Economic outlook

After a 4.5% increase in Q4 2010, GDP rose by 4.4% yoy in Q1 2011. The data showed positive dynamics in consumption, despite the VAT increase. The growth was also the result of rising investment (6% yoy), which was disappointing in previous quarters. Although the increase is driven by public expenditure, private investments should pick up in the following quarters. Thus we expect robust domestic demand to contribute to growth of around 4.0% yoy in the coming quarters, despite the rising base effect from 2010. The main risk to the forecast is a lower than expected rise in gross fixed capital formation as the rise in private investment will have to offset lower public spending. Unemployment decreased from 13.2% in February to 12.2% in May. By year-end the unemployment rate should be around 10.9%, another factor supporting private consumption.

Fiscal outlook

The risk of the public debt-to-GDP ratio breaching the limits defined in the public finances bill was significantly lower following an increase in VAT and changes to the pension system. The increased inflow into the public part of the pension funds should reduce the government deficit by 0.6% of GDP in 2011 and 1.1% in 2012. Thus, we expect an ESA95 public debt-to-GDP ratio of around 55.1% in 2011 and 55.7% next year. The VAT and pension fund changes are a quick fix for public finances. No decisions have yet been made on longer-term consolidation plans, which are delayed due to the parliamentary elections in October. According to recent polls the ruling Civic Platform party is gaining support, but the most probable scenario seems to be a coalition, which is a risk factor for needed structural reforms.

Key economic figures and forecasts

	2006	2007	2008	2009	2010	2011e	2012f
Nominal GDP (EUR bn)	272.1	311.0	363.7	306.8	351.9	392.4	437.9
Real GDP (% yoy)	6.2	6.8	5.1	1.7	3.8	4.1	4.5
Industrial output (% yoy)	11.6	10.7	3.6	-4.5	9.8	7.0	8.0
Unemployment rate (avg, %)	16.2	12.7	9.8	11.0	12.1	11.0	10.0
Nominal industrial wages (% yoy)	5.1	9.2	10.1	4.4	3.3	4.5	4.5
Producer prices (avg, % yoy)	2.0	2.0	2.2	3.4	2.1	4.9	2.5
Consumer prices (avg, % yoy)	1.0	2.5	4.2	3.5	2.6	4.2	2.9
Consumer prices (eop, % yoy)	1.4	4.0	3.3	3.5	3.1	4.0	2.5
General budget balance (% of GDP)	-3.6	-1.9	-3.7	-7.2	-7.8	-5.3	-3.2
Current account balance (% of GDP)	-2.7	-4.7	-5.1	-2.2	-3.3	-3.3	-3.4
Official FX reserves (EUR bn)	36.8	44.7	44.1	55.2	70.0	75.0	78.0
EUR/PLN (avg)	3.90	3.78	3.51	4.33	3.99	3.88	3.75
USD/PLN (avg)	3.10	2.76	2.39	3.11	3.01	2.66	2.88

Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Exchange rate outlook

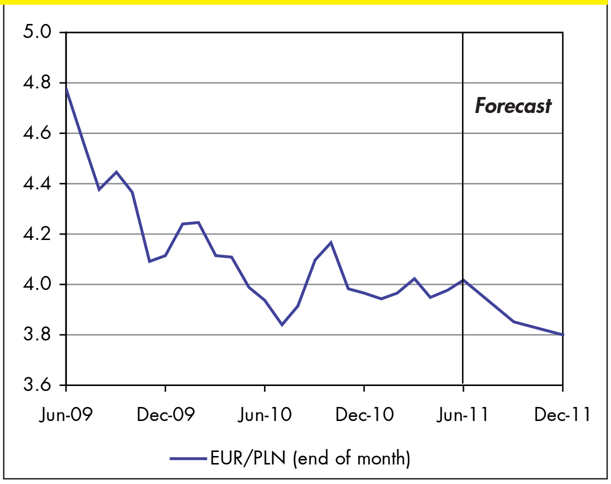
EUR/PLN traded in a narrow range of 3.90-4.00. The zloty has been supported by front-loaded rate hikes and EUR selling by the Ministry of Finance. However, global market weaknesses have steadily eaten up any gains. Going forward there is some value left in the PLN from a fundamental perspective. The domestic investment cycle is gaining momentum as indicated by recent data. However, there is not so much support left from domestic rates in 2011 (we expect another 25bp hike in autumn). Moreover, the zloty does not look very cheap vs. other Emerging Market currencies anymore given the recent price movements on the currency markets. Consequently we expect only a moderate strengthening in the months ahead. However, any dips to 4.00 would represent a chance to open up opportunistic short-term long positions.

Bond market outlook

As we are either approaching the end of the current tightening cycle or at least a pause in proceedings, long-term yields continued to inch down while short-term rates rose. Moreover, inflation is expected to peak soon. Thus from a medium-term view of 6-9 months there is some value left in the long end of the curve. However, Q3 could be rather bumpy. Firstly, pressure on the sovereign rating might increase if the chances of more decisive fiscal consolidation following the elections fade away. Secondly, any negative surprise regarding a revision of current account data (that may also trigger a revision of GDP and fiscal data) might temporarily add to negative investor sentiment. Thirdly, more uncertainty regarding the interest rate outlook may arise in Q3 (i.e. whether the NBP will pause for a longer time or not).

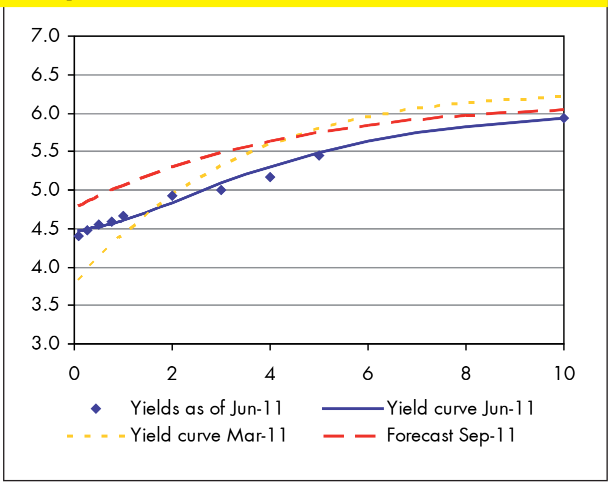
Gunter Deuber, Dorota Strauch

EUR/PLN outlook



Source: Thomson Reuters, Raiffeisen RESEARCH

PLN yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Exchange rate, interest rate and bond market outlook

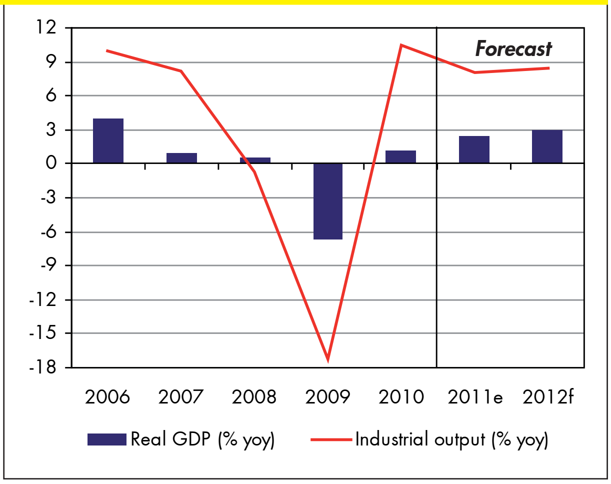
	Coupon	Maturity	21-Jun*	Sep-11	EUR perf.	Dec-11	EUR perf.	Mar-12	EUR perf.	Jun-12	EUR perf.
EUR/PLN			3.98	**3.85**	3.5	**3.80**	4.9	**3.80**	4.9	**3.90**	2.2
USD/PLN			2.78	2.57	8.2	2.62	6.0	2.71	2.3	3.00	-7.4
Key rate**			4.50	**4.75**		**4.75**		**4.75**		**4.75**	
1m			4.4	**4.8**		**4.9**		**4.8**		**4.8**	
3m			4.5	**4.9**		**4.9**		**4.9**		**4.9**	
12m			4.5	**5.3**	4.2	**5.3**	7.0	**5.3**	8.5	**5.3**	7.0
2y T-bond	0.00%	Jul-13	4.9	**5.4**	4.1	**5.4**	6.8	**5.6**	8.2	**5.6**	6.9
5y T-bond	5.00%	Apr-16	5.5	**6.0**	3.0	**5.9**	5.9	**5.8**	7.8	**5.8**	7.0
10y T-bond	5.25%	Oct-20	5.9	**6.0**	5.1	**6.0**	7.7	**6.0**	9.2	**6.0**	8.3
20y T-bond	5.75%	Apr-29	6.1	**6.2**	5.2	**6.2**	8.2	**6.2**	9.2	**6.1**	8.0

** 5:00 p.m. (CET); ** 7d rate on money market bills*
Source: Thomson Reuters, Raiffeisen RESEARCH

Domestic economy yet to turn

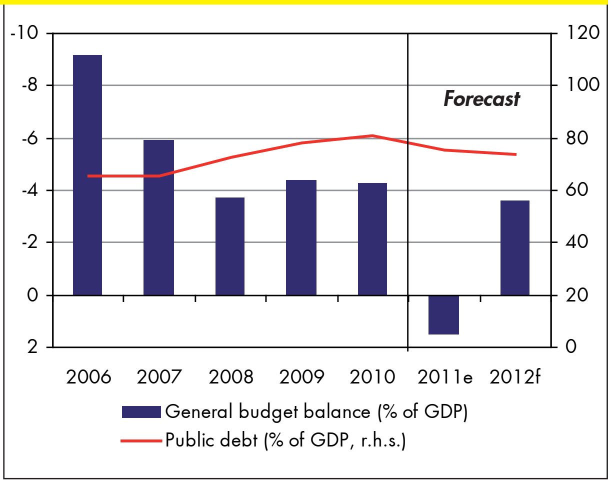
Growth will disappear if exports falter

Real GDP (% yoy)



Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

General budget balance and public debt



Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Economic outlook

GDP growth totalled 2.5% yoy in Q1 2011 (0.7% qoq). There is not much change in the composition of growth vis-à-vis previous quarters, with manufacturing exports still the number one driving force. Household consumption decreased by 0.9% yoy, while public consumption grew surprisingly fast (3.8% yoy). Looking ahead we see mixed signals: industrial output has become weaker recently and external demand may not be as strong in the future as it was in the past. At the same time, households will receive the real yield of the nationalized pension fund assets (equalling 0.8% of GDP) which may boost consumption in H2. Given these factors we have kept our GDP forecast unchanged at 2.5% for 2011. As far as 2012 is concerned, fiscal austerity and the poor external environment paints a bleak picture that can be temporarily offset by rising employment (mostly on behalf of public work schemes) and new export capacities – we uphold our 3% forecast with the proviso that a downward revision is a growing possibility.

Fiscal outlook

The government is pressing ahead with its structural reform plans. The initial plans were badly received (clearly nobody likes spending cuts), and those who have organized trade unions are willing and able to express their discontent with the measures. While the government adopted a softer stance on some items altogether the government appears to be quite committed to delivering most of the reforms. This drive is reflected by the recent move from Fitch Ratings to change the outlook from negative to stable. Nevertheless, other rating agencies as well as the markets in general require more action rather than words.

Key economic figures and forecasts

	2006	2007	2008	2009	2010	2011e	2012f
Nominal GDP (EUR bn)	89.9	101.1	105.6	93.2	98.5	107.6	115.2
Real GDP (% yoy)	4.0	1.0	0.6	-6.7	1.2	2.5	3.0
Industrial output (% yoy)	10.0	8.1	-0.8	-17.3	10.5	8.0	8.5
Unemployment rate (avg, %)	7.5	7.5	7.8	9.9	11.2	11.1	9.6
Nominal industrial wages (% yoy)	8.7	8.4	6.5	3.8	5.5	3.5	3.3
Producer prices (avg, % yoy)	6.5	0.1	5.1	4.9	4.5	3.8	4.3
Consumer prices (avg, % yoy)	3.9	8.0	6.1	4.2	4.9	4.1	3.5
Consumer prices (eop, % yoy)	6.5	7.4	3.5	5.6	4.7	3.8	3.4
General budget balance (% of GDP)	-9.2	-5.9	-3.7	-4.4	-4.3	1.5	-3.6
Current account balance (% of GDP)	-7.6	-6.5	-7.1	0.4	2.1	2.1	2.6
Official FX reserves (EUR bn)	16.4	16.0	24.0	30.0	33.7	36.0	38.9
EUR/HUF (avg)	264.1	251.3	250.8	280.1	275.5	266.2	265.0
USD/HUF (avg)	210.3	183.3	170.5	200.9	207.7	182.3	203.8

Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Exchange rate outlook

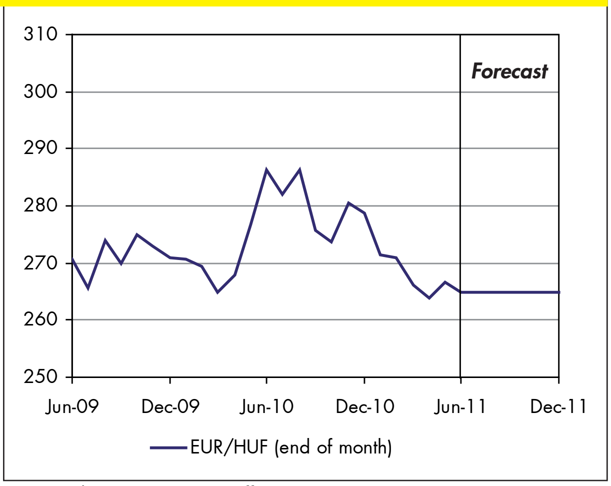
The EUR/HUF proved to be stable in the past quarter, moving in a tight range of 264-270, and we expect the tight movement to prevail in the third quarter of 2011. Given the stable domestic outlook, only changes in global sentiment would lead to a stronger deviation from the currently tight trading range in our view. The biggest threat will probably remain the situation in Greece as well as economic developments in the Eurozone. Hungary still relies heavily on exports as well as positive market sentiment. On the positive side, the first improvement in the rating outlook by Fitch should be followed by S&P and Moody's in the coming months, but rating upgrades are very unlikely before 2012. All in all this leaves us with a sideways movement in the forint for the coming months. While we see no room for further appreciation in the EUR/HUF in the current environment, the risk of a weaker forint due to global events is certainly higher as the forint remains a susceptible currency.

Bond market outlook

With a stable currency as well as stable interest rates at 6.0%, yields displayed a rather uninspiring sideways movement in Hungary during the second quarter of 2011. Chances for further interest rate hikes in our baseline scenario are very slim to say the least, and would only occur if we see very negative impulses from Greece damaging global market sentiment. On the other side it is far too early for policymakers in the central bank to start lowering interest rates while we see continued increases in rates in the Eurozone. Movements in the yield curve will most likely have to come from events on the global markets and will result in more or less short-lived increases in yields.

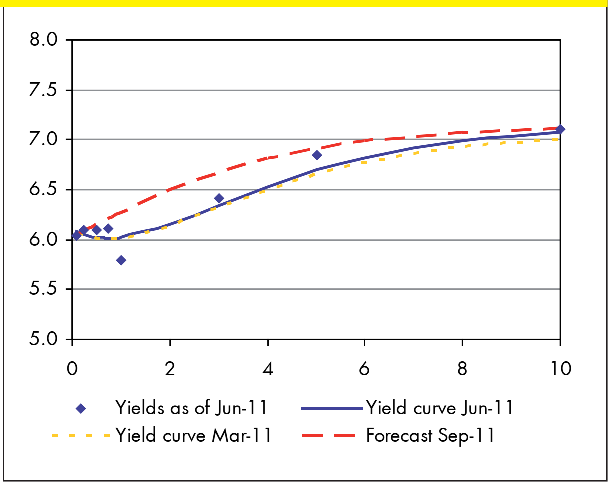
Zoltan Török, Wolfgang Ernst

EUR/HUF outlook



Source: Thomson Reuters, Raiffeisen RESEARCH

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

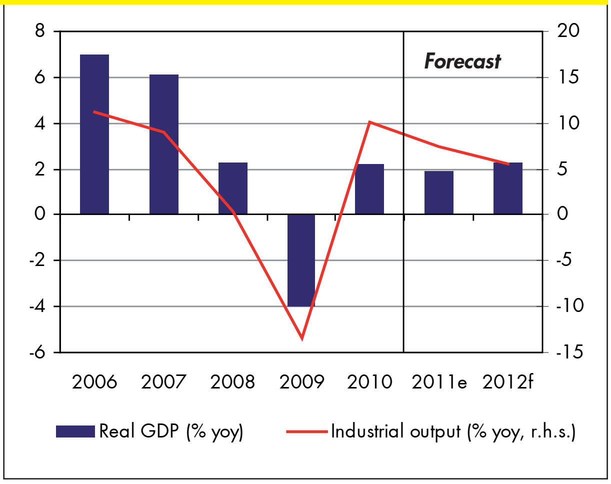
Exchange rate, interest rate and bond market outlook

	Coupon	Maturity	21-Jun*	Sep-11	EUR perf.	Dec-11	EUR perf.	Mar-12	EUR perf.	Jun-12	EUR perf.
EUR/HUF			267.0	**265.0**	0.8	**265.0**	0.8	**265.0**	0.8	**275.0**	-2.9
USD/HUF			186.3	176.7	5.5	182.8	1.9	189.3	-1.6	211.5	-11.9
Key rate**			6.0	**6.00**		**6.00**		**5.75**		**5.75**	
1m			6.0	**6.1**		**6.1**		**5.8**		**5.8**	
3m			5.7	**6.1**		**6.1**		**5.9**		**5.9**	
12m			5.8	**6.3**	0.6	**6.1**	2.2	**6.1**	3.9	**6.1**	5.1
3y T-bond	6.75%	Aug-14	6.4	**6.8**	1.6	**6.5**	3.5	**6.5**	5.1	**6.5**	3.0
5y T-bond	6.75%	Feb-17	6.8	**6.9**	2.0	**6.7**	4.1	**6.7**	5.6	**6.8**	3.5
10y T-bond	7.00%	Jun-22	7.1	**7.1**	3.1	**6.9**	4.7	**6.9**	7.2	**7.0**	4.1
15y T-bond	6.75%	Oct-28	7.1	**7.2**	2.9	**7.0**	4.7	**7.0**	7.9	**7.1**	4.4

** 5:00 p.m. (CET); ** 2w central bank deposit rate*
Source: Thomson Reuters, Raiffeisen RESEARCH

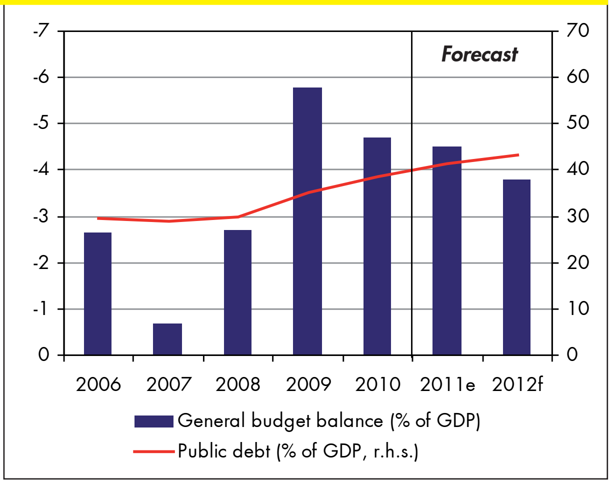
Growth prospects subdued
as fiscal austerity continues

Real GDP (% yoy)



Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

General budget balance and public debt



Source: STEM

Economic outlook

The Czech economy accelerated in Q1 2011, growing by 0.9% qoq and 2.8% yoy. The growth was driven by exports and changes in inventories. The expected decrease in public and private consumption caused by the fiscal austerity measures finally arrived. In contrast to expectations, however, gross fixed capital formation also decreased on a quarterly basis. We nevertheless consider this decline to be temporary. The strong performance of exports and the faster-than-expected growth of wages in the private sector in Q1 allow us to revise the growth prospects of the Czech economy for 2011 upward slightly from 1.5 to 1.9%.

Fiscal outlook

The new Convergence Program sets the 2012–2014 fiscal deficit at 3.5, 2.9 and 1.9% of GDP. The underlying growth assumptions for the respective years used by the MoF are 2.3, 3.3 and 4.0%. While the fiscal goals for 2012 and 2013 do seem realistic, the figure for 2014 is questionable; in any case the program is not overambitious and the government can manage it without excessive fiscal effort. An autonomous development of fiscal deficits (scenario of no policy changes) would result in 4.3, 3.7 and 2.7% of GDP in 2012–2014 according to the MoF, under the given macroeconomic assumptions. Hence the annual fiscal performance is 0.8% of GDP.
The lion's share of the fiscal restriction in 2012 will be delivered by a VAT hike. The lower rate will increase from 10 to 14% (boosting the CPI in 2012 by roughly 1 p.p.) Apart from that some expenditure cuts will be necessary too. The negative growth impact of the 2012 fiscal restriction, however, will be lower than in 2011.

Key economic figures and forecasts

	2006	2007	2008	2009	2010	2011e	2012f
Nominal GDP (EUR bn)	113.8	127.6	147.8	137.2	145.3	155.5	167.5
Real GDP (% yoy)	7.0	6.1	2.3	-4.0	2.2	1.9	2.3
Industrial output (% yoy)	11.2	9.0	0.4	-13.4	10.1	7.5	5.5
Unemployment rate (avg, %)	8.1	6.6	5.4	8.1	9.0	8.6	8.0
Nominal industrial wages (% yoy)	6.4	7.2	8.1	3.5	3.7	4.5	5.0
Producer prices (avg, % yoy)	1.5	4.1	4.5	-3.1	1.2	5.7	2.4
Consumer prices (avg, % yoy)	2.5	2.8	6.3	1.0	1.5	2.2	2.9
Consumer prices (eop, % yoy)	1.7	5.4	3.6	1.0	2.3	2.5	2.5
General budget balance (% of GDP)	-2.6	-0.7	-2.7	-5.8	-4.7	-4.5	-3.8
Current account balance (% of GDP)	-2.4	-3.2	-0.6	-3.2	-3.8	-3.3	-3.0
Official FX reserves (EUR bn)	23.9	23.7	26.6	28.9	32.0	35.0	39.0
EUR/CZK (avg)	28.3	27.7	24.9	26.4	25.3	24.3	23.4
USD/CZK (avg)	22.6	20.2	17.0	19.0	19.1	16.6	18.0

Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Exchange rate outlook

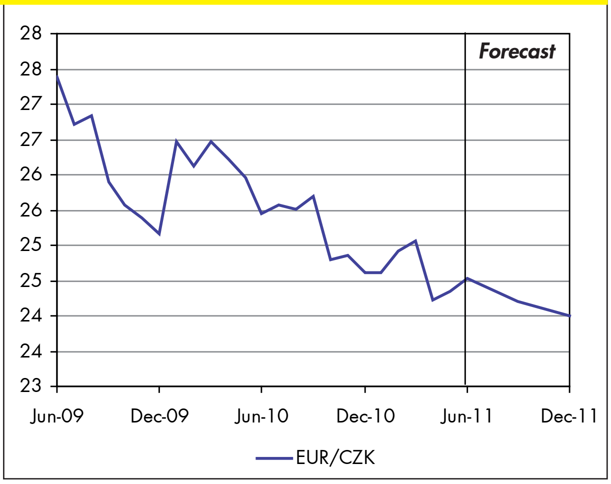
The escalation of the debt troubles in the periphery of the Eurozone and the widening of the EUR-CZK interest rate differential kept the CZK at weaker levels against the EUR, in line with our forecast. In the summer the CZK may also hover around weaker levels due to seasonal effects and a potential escalation in the debt threat hanging over some Eurozone countries. However, the Czech National Bank could start increasing interest rates as soon as August. Also, as the CZK is perceived as a safe haven currency within the region, the potential for depreciation should be limited. Thus a weakening of the CZK to 24.50 and beyond against the EUR should be taken as an opportunity to hedge against the return of the Czech currency to its long-term appreciation trend.

Bond market outlook

Neither the low net issuance of domestic bonds nor the low inflation or somewhat improved short-term fiscal outlook were able to lower the spread between government bond yields and German Bunds. Quite the contrary, the yield spread widened slightly. Nevertheless, Czech bond yields rose following the German benchmark. We think that the yield spread toward German Bunds has the potential to decrease as we see a high probability of a sovereign rating improvement over the next 6–12 months. However, we expect the rate hike cycle to begin in Q3 and the economy to continue growing. Thus given the currently low level of yields our outlook for Czech government bonds remains negative. Consequently, we have changed our recommendation on Czech government bonds from hold to sell.

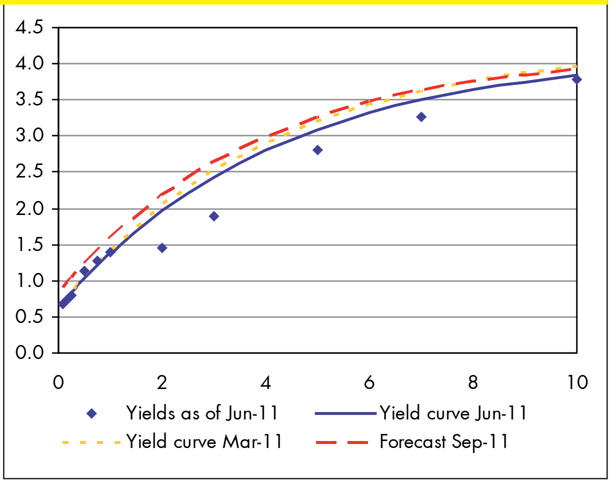
Pavel Mertlik, Michal Brozka

EUR/CZK outlook



Source: Thomson Reuters, Raiffeisen RESEARCH

CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

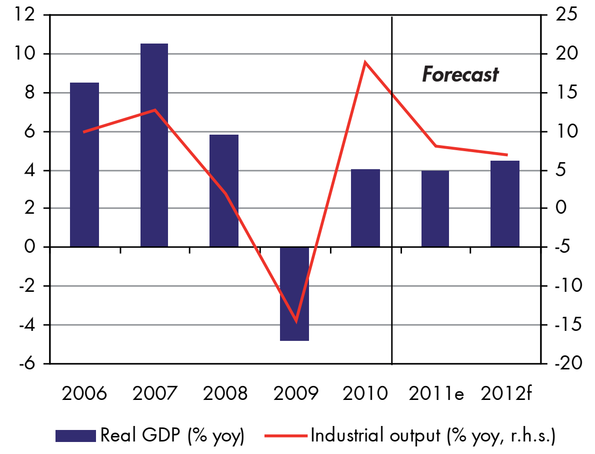
Exchange rate, interest rate and bond market outlook

	Coupon	Maturity	21-Jun*	Sep-11	EUR perf.	Dec-11	EUR perf.	Mar-12	EUR perf.	Jun-12	EUR perf.
EUR/CZK			24.2	**24.2**	0.1	**24.0**	1.0	**23.6**	2.7	**23.8**	1.8
USD/CZK			16.9	16.1	4.5	16.6	1.8	16.9	0.0	18.3	-8.0
Key rate**			0.8	**1.00**		**1.25**		**1.50**		**1.75**	
1m			0.7	**0.9**		**1.2**		**1.5**		**1.7**	
3m			0.8	**1.1**		**1.3**		**1.5**		**1.8**	
12m			1.3	**1.7**	0.5	**1.8**	1.7	**2.1**	3.9	**2.2**	3.6
2y T-bond	3.55%	Oct-12	1.5	**1.7**	0.4	**1.8**	1.6	**2.0**	3.6	**2.3**	3.2
5y T-bond	3.40%	Sep-15	2.8	**3.0**	0.3	**3.1**	1.6	**3.3**	4.1	**3.3**	4.3
10y T-bond	3.75%	Sep-20	3.8	**3.9**	0.3	**3.9**	2.1	**4.1**	3.4	**3.9**	4.9
15y T-bond	5.70%	May-24	4.0	**4.0**	1.4	**4.2**	1.5	**4.2**	4.2	**4.0**	6.1

** 5:00 p.m. (CET); ** 2w repo rate*
Source: Thomson Reuters, Raiffeisen RESEARCH

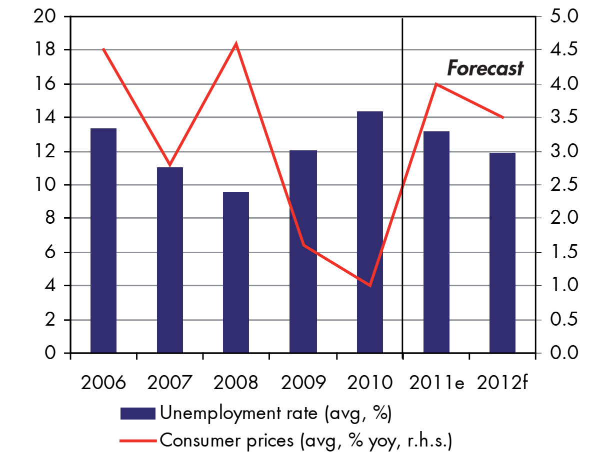
Inflation bogey scares economy
Growth of real wages under threat

Real GDP and inflation (% yoy)



Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Inflation outlook



Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Economic outlook

In Q1 2011 GDP grew by 3.5% yoy, the same as in Q4 2010, driven by export-oriented industry and investments. On the other hand, growth was suppressed by austerity measures and stagnating household consumption. Prospects for the rest of 2011 are quite positive. Given the strong economic performance in the main export partners, we expect 4.0% GDP growth in 2011 and 4.5% in 2012. The growth pick-up will be driven by increasing household consumption from low levels (3.4% yoy expected for 2012 vs. 1.4% in 2011) as well as stronger gross fixed capital investments (6.8% yoy in 2012 vs. 4% in 2011). The recovery should be also led by business services that should benefit from the industrial recovery. Only the prospects for the construction sector are less favourable. Given the high inflation forecast it is very likely that real wage growth will be negative this year, which may help industry that suffered from the lack of FX flexibility in recent years.

Inflation outlook

The development of consumer prices during the first five months was worse than we expected. Therefore, we were forced to up our forecasts for 2011-2012. Continuously rising food prices created inflationary pressure, and in addition, the Regulatory Office has recently increased regulated energy prices (gas by 6% and heating by 7%) effective from August 2011. With such significant energy price hikes we cannot rule out secondary effects. We expect average inflation to reach 4.0% in 2011, while the end-year value should be close to 4.4%. Next year we expect inflation to gradually decrease to an average of 3.5%.

Juraj Valachy, Boris Fojtik

Key economic figures and forecasts

	2006	2007	2008	2009	2010	2011e	2012f
Nominal GDP (EUR bn)	44.5	54.9	64.5	63.1	65.9	69.9	75.7
Real GDP (% yoy)	8.5	10.5	5.8	-4.8	4.0	4.0	4.5
Industrial output (% yoy)	9.9	12.8	2.0	-14.5	18.9	8.0	7.0
Unemployment rate (avg, %)	13.3	11.0	9.6	12.1	14.4	13.2	11.9
Nominal industrial wages (% yoy)	6.8	0.0	7.7	2.7	5.1	5.0	6.5
Producer prices (avg, % yoy)	8.4	2.1	5.0	-2.5	-2.8	2.8	2.6
Consumer prices (avg, % yoy)	4.5	2.8	4.6	1.6	1.0	4.0	3.5
Consumer prices (eop, % yoy)	4.2	3.4	4.4	0.5	1.3	4.4	3.7
General budget balance (% of GDP)	-3.2	-1.8	-2.1	-8.0	-7.9	-4.9	-4.1
Current account balance (% of GDP)	-7.7	-5.3	-6.0	-3.6	-3.5	-1.7	-1.2
Official FX reserves (EUR bn)	9.9	13.0	13.5	1.0	1.2	1.4	1.6
EUR/SKK (avg)*	37.2	33.8	31.3	euro zone membership at EUR/SKK 30.126			
USD/SKK (avg)*	29.7	24.6	21.3	euro zone membership at EUR/SKK 30.126			
EUR/USD (avg)	1.26	1.37	1.47	1.39	1.33	1.46	1.30

* *Eurozone entry on 1 Jan-09*
Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

No alternative
to austerity measures

Economic outlook

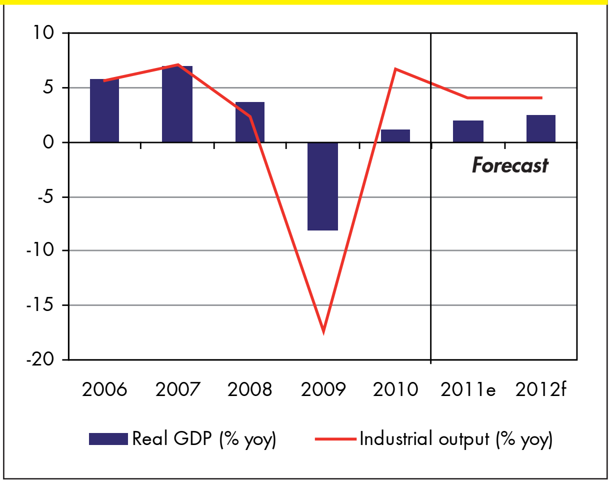
In the first quarter of 2011 the economy grew by 2.0% yoy, with export demand remaining the most important factor for GDP growth. Exports of goods and services grew by 10.6% in real terms and thus slightly enhanced the growth dynamics compared to previous quarters. Import growth also accelerated (+11.1% compared to the first quarter of 2010). The government has prepared a set of measures to improve the public finance position, and expects the economy to grow by 2.2% this year, up from 1.2% in 2010. However, the consolidation may result in somewhat weaker economic growth by restricting government expenditure on investment and consumption.

Political outlook

The government has to take steps to consolidate public finances after the population rejected a pension reform plan in a referendum at the beginning of June. Slovenians voted against a gradual rise in the national retirement age, necessary to ensure the long-term stability of public finances. The referendum defeat prevents parliament from passing a similar law for at least a year, indicates waning support for the minority centre-left government and raises the probability of a no-confidence vote or early elections. The government is planning savings measures by trimming down the number of ministries, launching a massive reduction of expenditures and pushing through wage cuts for all public servants in a bid to bring its budget deficit below 3% of GDP by the end of 2013. The current negative outlook on Slovenia's ratings reflects the possibility of a downgrade should the debt burden fail to stabilise.

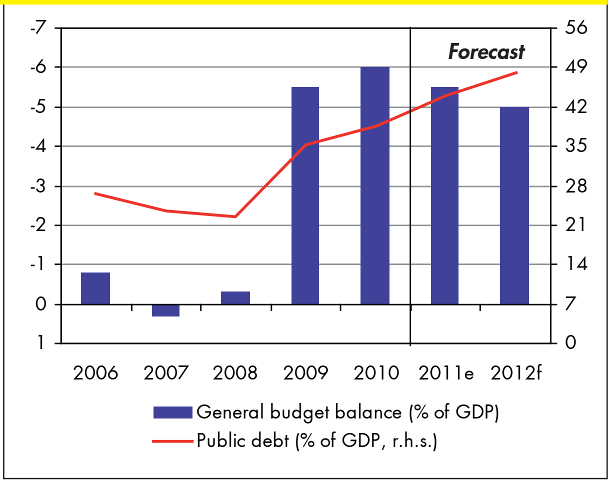
Martin Stelzeneder

Real GDP (% yoy)



Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

General budget balance and public debt



Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

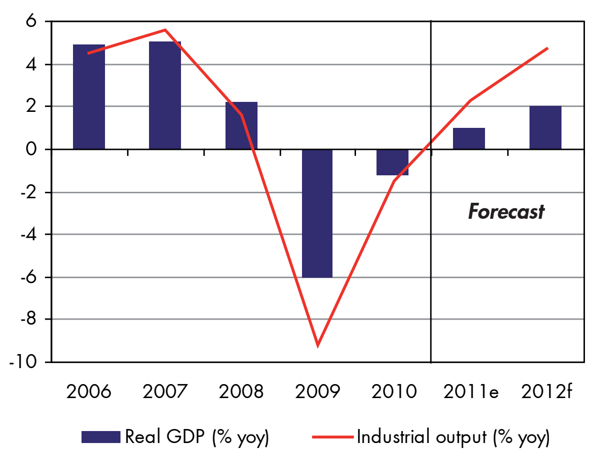
Key economic figures and forecasts

	2006	2007	2008	2009	2010	2011e	2012f
Nominal GDP (EUR bn)	31.1	34.6	37.3	35.4	36.6	38.3	40.3
Real GDP (% yoy)	5.8	6.9	3.7	-8.1	1.2	2.0	2.5
Industrial output (% yoy)	5.7	7.1	2.4	-17.3	6.7	4.0	4.0
Unemployment rate (avg, %)	9.4	7.7	6.7	9.2	10.7	11.5	10.8
Nominal industrial wages (% yoy)	5.1	6.7	8.4	0.0	3.0	4.5	4.5
Producer prices (avg, % yoy)	2.3	4.4	3.9	-1.4	-1.0	2.0	2.0
Consumer prices (avg, % yoy)	2.5	3.6	5.7	0.9	1.8	2.0	2.2
Consumer prices (eop, % yoy)	2.8	5.6	2.1	1.8	1.8	2.3	2.4
General budget balance (% of GDP)	-0.8	0.3	-0.3	-5.5	-6.0	-5.5	-5.0
Current account balance (% of GDP)	-2.5	-4.8	-6.7	-1.5	-1.1	-1.6	-1.7
Official FX reserves (EUR bn)	5.3	0.7	0.6	0.7	0.7	0.7	0.7
EUR/SIT (avg)*	239.6	239.6					
USD/SIT (avg)*	190.7	174.8					
EUR/USD (avg)	1.26	1.37	1.47	1.39	1.33	1.46	1.30

** Eurozone entry on 1 Jan-07*
Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

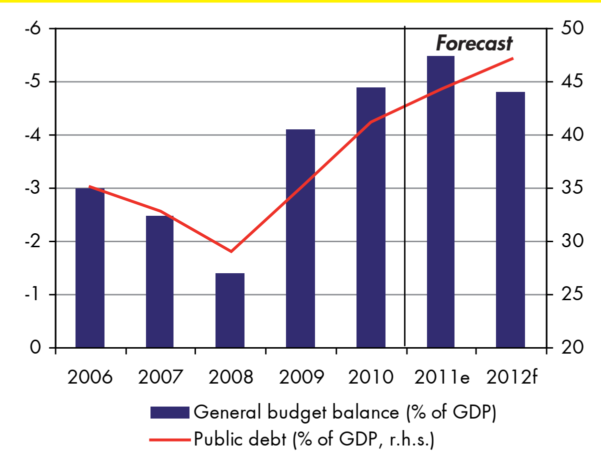
An end always means a beginning

Real GDP (% yoy)



Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

General budget balance and public debt



Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Economic outlook

A disappointing Q1 confirmed the deep and structural nature of Croatia's long-lasting recession (delay of structural reforms, low competitiveness). However, initial positive signs disclosed at the beginning of Q2 (retail and industrial production are moving up) give us reason to hope that H2 2011 will bring more positive developments. All in all, anticipated GDP growth of just 1% will mainly be driven by personal consumption supported with a good tourist season and a seasonal improvement on the labour market. Along with exports we still believe that investments may make a positive contribution, especially assuming that Croatia will finish its accession negotiations this year. Great investment potential still lies untapped in three sectors: energy, tourism and transport. A prerequisite in this context, however, is a better investment climate (by removing administrative barriers) and deeper structural reforms (primarily fiscal).

EU integration

The end of the road for Croatia towards the EU finally seems to be in sight after a long negotiation process of six years. Croatia might join the EU as the 28th Member State from 1 July 2013.

The EU will endorse a monitoring process in the form of written warnings (for the first time in the history of enlargement) if Croatia does not proceed with adjustments to EU regulations. However, this should not be viewed as negative factor, but rather as helpful, to assure Croatia enters the EU as ready as it can be. Furthermore, since it is expected to take at least 18–24 months for EU member countries to approve the enlargement, the risk of further delays is still present.

Key economic figures and forecasts

	2006	2007	2008	2009	2010	2011e	2012f
Nominal GDP (EUR bn)	39.7	43.4	47.8	45.7	45.9	47.1	49.7
Real GDP (% yoy)	4.9	5.1	2.2	-6.0	-1.2	1.0	2.0
Industrial output (% yoy)	4.5	5.6	1.6	-9.2	-1.5	2.3	4.7
Unemployment rate (avg, %)	17.0	15.1	13.4	14.9	17.6	18.2	17.5
Nominal industrial wages (% yoy)	7.6	5.6	6.2	1.4	-0.5	1.0	1.1
Producer prices (avg, % yoy)	2.9	3.4	8.4	-0.4	4.3	6.8	4.0
Consumer prices (avg, % yoy)	3.2	2.9	6.1	2.4	1.1	3.0	3.5
Consumer prices (eop, % yoy)	2.0	5.8	2.9	1.9	1.8	3.5	2.8
General budget balance (% of GDP)	-3.0	-2.5	-1.4	-4.1	-4.9	-5.5	-4.8
Current account balance (% of GDP)	-6.6	-7.2	-8.8	-5.3	-1.3	-2.4	-2.9
Official FX reserves (EUR bn)	8.7	9.3	9.1	10.4	10.7	11.7	12.0
EUR/HRK (avg)	7.32	7.34	7.22	7.34	7.29	7.40	7.42
USD/HRK (avg)	5.83	5.35	4.91	5.26	5.49	5.07	5.71

Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Exchange rate outlook

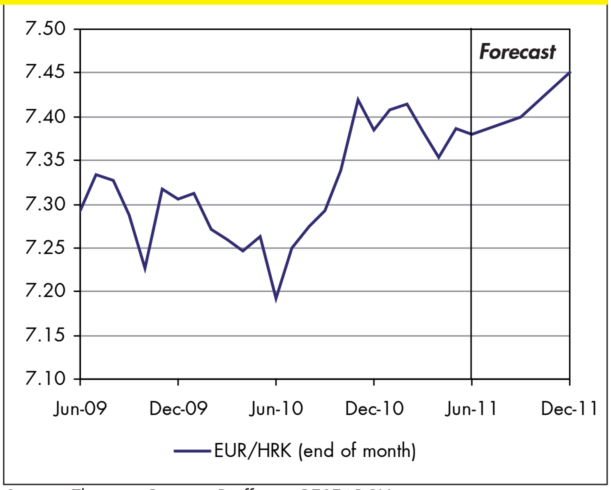
Depreciation pressures on the HRK prevailed on the FX market, quite unusual for late spring, and mainly driven by the positioning of market players before the relatively large EUR-linked T-bill maturities, the announced Eurobond issuances as well as dividend payments (corporate and banking sector).
The (quasi) sovereign external borrowing plans, the Eurobond issue and the anticipation of foreign currency inflows from tourism are some of the factors indicating appreciation pressures. Hence the trend clearly points toward a stronger HRK, especially in the peak tourist season, but we cannot rule out the possibility of occasional demand for euro from the corporate sector (for financing foreign debt and goods imports). Trading around 7.30 during the summer months is very likely and this could be supported by domestic bond issues denominated in EUR. Towards year-end we expect slow and gradual depreciation pressures on the kuna towards 7.45 per euro.

Bond market outlook

The decline in yields, the narrowing of spreads and the CDS continued in Q2, and such developments are expected to continue throughout the rest of the year, albeit weaker in intensity. Of course, negative spill-over and a deterioration in sentiment towards riskier assets are always possible, especially given the unresolved fiscal problems on the European periphery. Croatian bonds would certainly get a boost from the completion of EU membership negotiations. Amidst the ample liquidity but shallow market conditions, and despite the decline in yields, the demand in the domestic market will be strong until the government comes out with a domestic issue, which has been announced for the second half of the year (most likely during July).

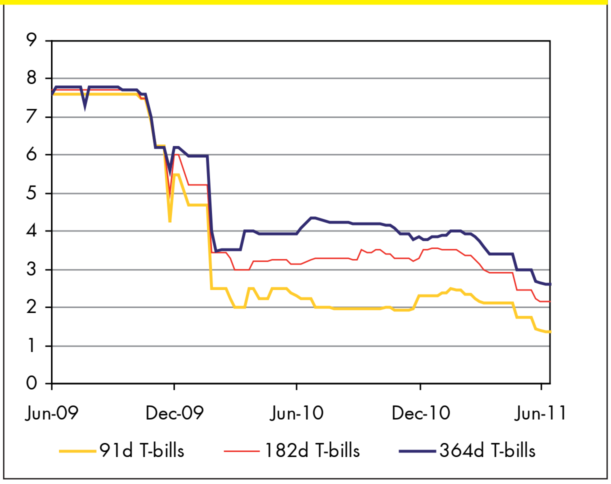
Zrinka Zivkovic-Matijevic, Ivana Juric

EUR/HRK outlook



Source: Thomson Reuters, Raiffeisen RESEARCH

HRK interest rates on T-bills (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

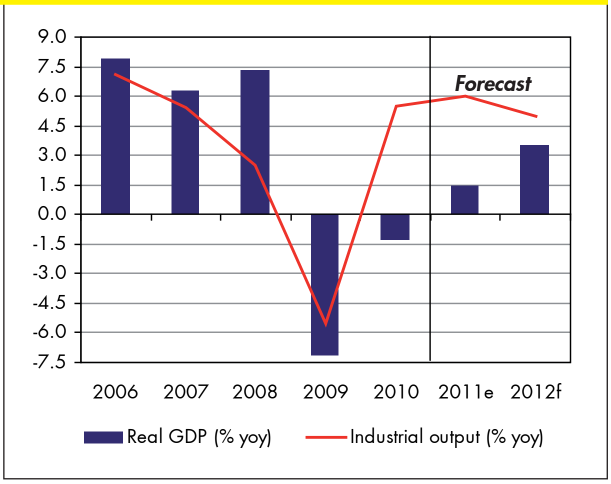
Exchange rate, interest rate and bond market outlook

	Coupon	Maturity	21-Jun*	Sep-11	EUR perf.	Dec-11	EUR perf.	Mar-12	EUR perf.	Jun-12	EUR perf.
EUR/HRK			7.38	**7.40**	-0.2	**7.45**	-0.9	**7.42**	-0.5	**7.38**	0.0
USD/HRK			5.12	4.93	3.7	5.14	-0.4	5.30	-3.4	5.68	-9.8
1m			0.3	**0.8**		**0.9**		**1.0**		**1.1**	
3m			1.0	**1.8**		**2.0**		**2.3**		**2.4**	
6m			2.0	**2.9**		**3.1**		**3.2**		**3.3**	
12m			2.5	**3.6**		**3.8**		**3.9**		**4.0**	
3y T-bond	4.50%	Jul-13	3.5	**3.6**	0.7	**3.6**	1.0	**3.6**	2.3	**3.8**	3.8
5y T-bond	5.25%	Dec-15	4.8	**4.9**	0.8	**4.8**	1.7	**4.8**	3.1	**5.0**	4.2
10y T-bond	6.75%	Mar-20	6.0	**6.1**	1.2	**6.0**	2.6	**5.9**	4.6	**6.2**	4.9

** 5:00 p.m. (CET);*
Source: Thomson Reuters, Raiffeisen RESEARCH

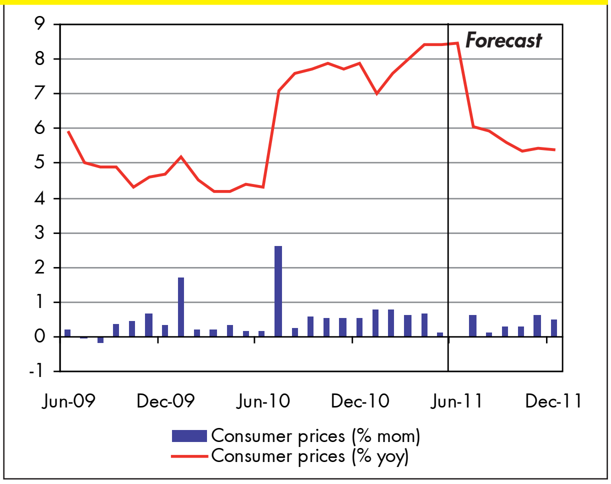
Gradual recovery
Confidence returns

Real GDP (% yoy)



Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Inflation outlook



Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Economic outlook

Real GDP grew 0.7% qoq and 1.7% yoy in Q1, confirming that the economy is back on an upward trend. While better than expected, the figures have not changed the overall picture of only a gradual recovery. External demand is still the main driver of GDP growth, boosting activity in industry and exports and inventories. Public and private consumption and investments all fell in Q1. Data suggest that the performance of industry and exports deteriorated in Q2, while domestic demand remained weak. Accordingly, we expect GDP growth to have slowed to around 0.3% qoq in Q2. We are looking for positive quarterly growth rates in Q3 and Q4, but not overly impressive ones. Private consumption and investments should recover, but only gradually, as we see confidence, the appetite to borrow and the inflows of foreign capital improving only slowly in the coming period. However, the fiscal consolidation does not give the government any scope to increase public spending.

Inflation outlook

Monthly inflation rates have come in above expectations in recent quarters, mainly due to strong increases in food and fuel prices. We expect that adverse shocks such as these will disappear in the second half of the year. We also believe the annual inflation rate will decrease towards 6% yoy in July, as last year's VAT hike is no longer relevant. In the baseline scenario we have set the inflation rate at 5.3% yoy in December, but the risks to this scenario remain on the upside, represented by the potential for larger than expected increases in administered prices (heating, energy).

Key economic figures and forecasts

	2006	2007	2008	2009	2010	2011e	2012f
Nominal GDP (EUR bn)	97.8	124.7	139.8	117.5	122.0	132.8	146.3
Real GDP (% yoy)	7.9	6.3	7.3	-7.1	-1.3	1.5	3.5
Industrial output (% yoy)	7.1	5.4	2.5	-5.5	5.5	6.0	5.0
Unemployment rate (avg, %)	5.4	4.3	4.0	6.3	7.6	5.5	5.0
Nominal industrial wages (% yoy)	15.7	21.6	21.3	10.5	9.3	8.0	8.0
Producer prices (avg, % yoy)	11.6	8.1	15.3	1.9	6.3	8.7	5.0
Consumer prices (avg, % yoy)	6.6	4.8	7.9	5.6	6.1	6.8	4.7
Consumer prices (eop, % yoy)	4.9	6.6	6.3	4.7	8.0	5.3	4.0
General budget balance (% of GDP)	-2.2	-2.6	-5.7	-8.5	-6.4	-5.0	-4.0
Current account balance (% of GDP)	-10.4	-13.4	-11.6	-4.2	-4.2	-4.5	-5.1
Official FX reserves (EUR bn)	21.3	25.3	26.2	28.3	32.4	33.0	32.0
EUR/RON (avg)	3.52	3.34	3.68	4.24	4.21	4.17	4.08
USD/RON (avg)	2.81	2.43	2.50	3.04	3.17	2.86	3.13

Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Exchange rate outlook

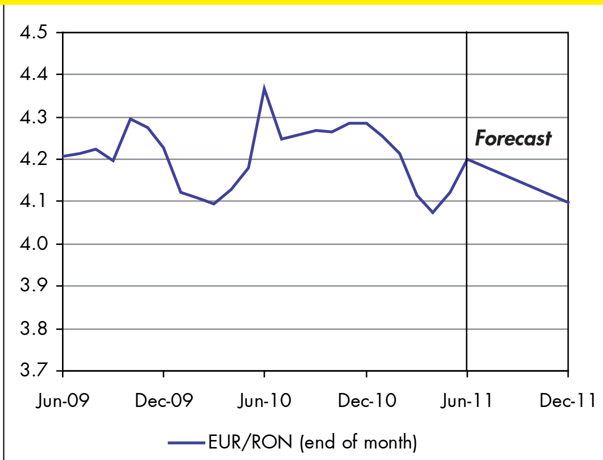
The leu appreciated rapidly by end-April on the back of good investor sentiment vis-à-vis Romania (thanks to an improvement in fundamentals and sound policies by authorities) and increased inflows of volatile foreign capital. The recent increase in risk aversion on the external markets erased part of the gains. We expect the EUR/RON rate to remain rather stable in the next few months. On the one hand there are no signs as yet of persistent inflows in foreign capital (FDI for instance is very low). This means there are few reasons for the central bank to allow a rapid appreciation of the leu as it might later be reversed or may have a negative impact on exports. On the other hand, the central bank has due reason and the ability to act when significant depreciation pressures arise, as this would complicate its job in lowering the inflation rate.

Bond market outlook

Although it will fall in the coming period, the inflation rate will remain high. Moreover, risks to inflation are on the upside. As a result, we expect the National Bank of Romania to keep the monetary policy rate unchanged at 6.25% in the coming quarters. We believe that bond yields are likely to trade close to their current or slightly lower levels in the second half of the year, which means capital gains are less probable. Nonetheless, coupon gains may be attractive for some investors as they are still high. However, provided that inflationary risks fail to materialise and the government presses forward with the fiscal consolidation plan, the bond market's prospects for 2012 seem better than over the short term.

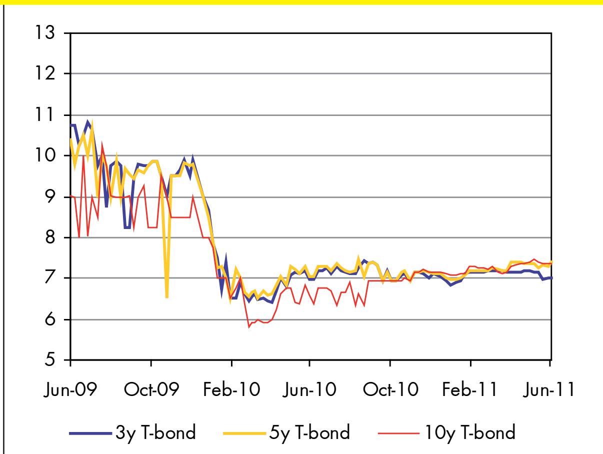
Ionut Dumitru, Nicolae Covrig

EUR/RON outlook



Source: Thomson Reuters, Raiffeisen RESEARCH

RON yield development



Source: Thomson Reuters, Raiffeisen RESEARCH

Exchange rate, interest rate and bond market outlook

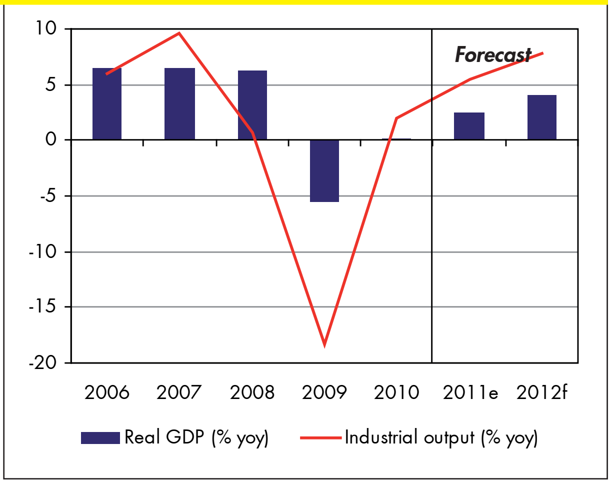
	Coupon	Maturity	21-Jun*	Sep-11	EUR perf.	Dec-11	EUR perf.	Mar-12	EUR perf.	Jun-12	EUR perf.
EUR/RON			4.24	**4.15**	2.2	**4.10**	3.4	**4.10**	3.4	**4.15**	2.2
USD/RON			2.95	2.77	6.6	2.83	4.3	2.93	0.7	3.19	-7.6
Key rate**			6.25	**6.25**		**6.25**		**6.25**		**6.25**	
1m			4.3	**5.1**		**5.0**		**5.0**		**5.1**	
3m			5.1	**5.5**		**5.5**		**5.5**		**5.5**	
1y T-bill			6.4	**6.5**	3.7	**6.5**	7.0	**6.3**	8.6	**6.4**	8.8
2y T-bond	8.25%	Mar-13	6.6	**6.8**	3.9	**6.6**	7.0	**6.5**	8.9	**6.6**	9.2
3y T-bond	6.25%	Oct-14	6.9	**6.9**	4.1	**6.8**	7.5	**6.7**	9.7	**6.8**	10.1
5y T-bond	6.00%	Apr-16	7.3	**7.0**	5.6	**6.8**	9.3	**6.7**	11.5	**6.8**	11.6
10y T-bond	5.95%	Jun-21	7.4	**7.0**	6.9	**6.9**	11.2	**6.8**	13.8	**6.9**	13.5

** 5:00 p.m. (CET); ** monetary policy rate*
Source: Thomson Reuters, Raiffeisen RESEARCH

Impressive C/A balance

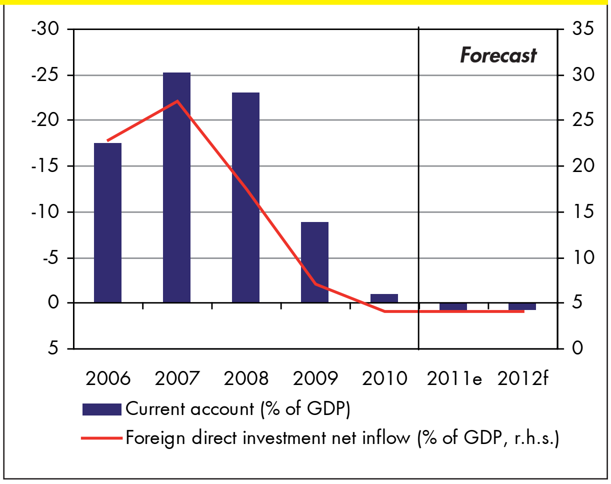
Domestic demand still subdued

Real GDP (% yoy)



Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Current account and FDI inflows



Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Economic outlook

In Q1 2011 real GDP increased by 1.5% yoy. Similarly to 2010 the main driver was exports, which advanced at a very rapid rate of 25.8%. Exports have already exceeded pre-crisis volumes, but in the following quarters this pace of growth is expected to decelerate. After some positive signs in the last months of 2010, domestic demand growth came back to negative territory in Q1 2011. For 2011 as a whole it is forecast to turn in a positive figure: consumption is envisaged to pick up by 1%, and investment by 4.5%. Economic growth is expected to reach 2.5% for the whole year, mainly driven by the rebound of domestic demand. However, certain downside risks to the forecast (largely concerning investment dynamics) should not be ignored.

Balance of payments outlook

The current account balance continued to improve in the first four months of 2011. It accumulated a surplus of EUR 230 mn vs. a deficit of EUR 726 mn a year earlier as the trade deficit shrank by 86% yoy. The summer months should see increased revenues from tourism and exports of agricultural products. Therefore, for the whole of 2011 we forecast a current account surplus of 1% of GDP.
On the financial account and similarly to 2010 there were substantial net outflows from the country. Currency and deposits amounting to EUR 1.2 bn were withdrawn from the Bulgarian banking system or deposited abroad, primarily due to the slack liquidity in the system. This led to a reduction of foreign debt but hindered economic growth.

Kaloyan Ganev

Key economic figures and forecasts

	2006	2007	2008	2009	2010	2011e	2012f
Nominal GDP (EUR bn)	26.5	30.8	35.4	34.9	36.0	38.6	41.3
Real GDP (% yoy)	6.5	6.4	6.2	-5.5	0.2	2.5	4.0
Industrial output (% yoy)	6.0	9.6	0.7	-18.3	2.0	5.5	7.8
Unemployment rate (avg, %)	9.0	6.9	6.3	6.8	10.2	10.6	9.7
Nominal industrial wages (% yoy)	10.8	18.4	24.3	9.7	10.5	7.6	4.4
Producer prices (avg, % yoy)	11.9	7.7	11.1	-6.2	8.5	12.0	8.0
Consumer prices (avg, % yoy)	7.3	8.4	12.3	2.8	2.4	4.2	3.3
Consumer prices (eop, % yoy)	6.5	12.5	7.8	0.6	4.5	3.6	2.6
General budget balance (% of GDP)	3.4	3.3	2.9	-0.8	-3.9	-2.6	-2.1
Current account balance (% of GDP)	-17.6	-25.2	-23.0	-8.9	-1.0	1.0	0.7
Official FX reserves (EUR bn)	8.9	11.9	12.7	12.9	13.0	14.6	17.3
EUR/BGN (avg)	1.96	1.96	1.96	1.96	1.96	1.96	1.96
USD/BGN (avg)	1.56	1.43	1.33	1.40	1.47	1.34	1.50

Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Interest rate differential
supports capital inflows

Economic outlook

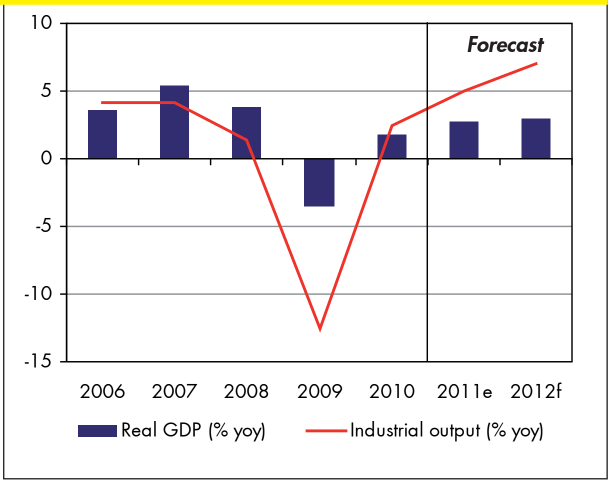
As per the flash estimate real GDP rose by 3% yoy in Q1. We reckon GDP will slow down in Q2 due to the mild weakening of industrial production, particularly in the manufacturing segment. However, overall performance in H2 2011 will remain positive, driven by the healthy export development (+23.8% yoy in April 2011) and further inflows of portfolio investment (+EUR 600 mn in Jan-Apr 2011) on the basis of the improved country premium and prompted by the highest interest rate differential to the Eurozone. The rise in public debt (+25.5% yoy in May 2011) will continue since the government is eager to finalise certain capital projects in the run up to parliamentary elections in 2012 while at the same time improve the image of the ruling coalition via incentives for both the retail and corporate segment.

Inflation outlook

Despite inflation reaching 13.4% yoy, the NBS decided to cut the key rate by 50bp to 12% due to pressures calming down in May to the lowest mom data in 2011 (0.4% mom). Prices in two segments that have driven inflation in recent months (accounting for approximately 80% of the inflation figure) i.e. food and beverages and alcoholic beverages and tobacco, have been stable for two months in a row, which should be a clear indicator that pressures are easing. However, there is still a threat from the regulated prices segment given the announced hike in the prices of natural gas, whilst recent amendments to the excise tax law will also add to the growth in oil prices. Though we still believe that the CPI will easily exceed the 2011 target range, there is a chance that year-end inflation will finish 2011 in single digits.

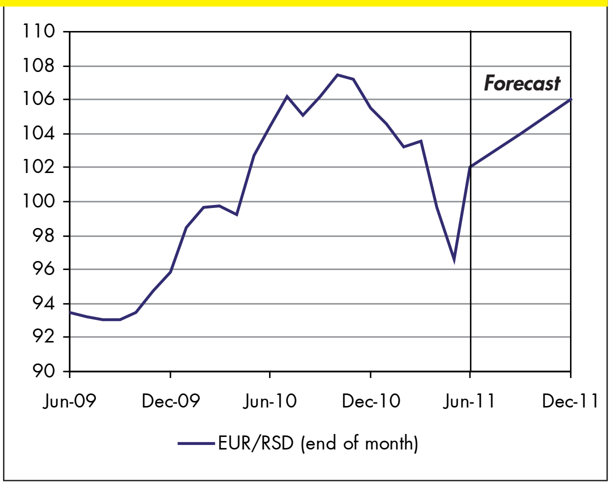
Aleksandra Vukosavljevic

Real GDP (% yoy)



Source: Thomson Reuters, Raiffeisen RESEARCH

EUR/RSD outlook



Source: Thomson Reuters, Raiffeisen RESEARCH

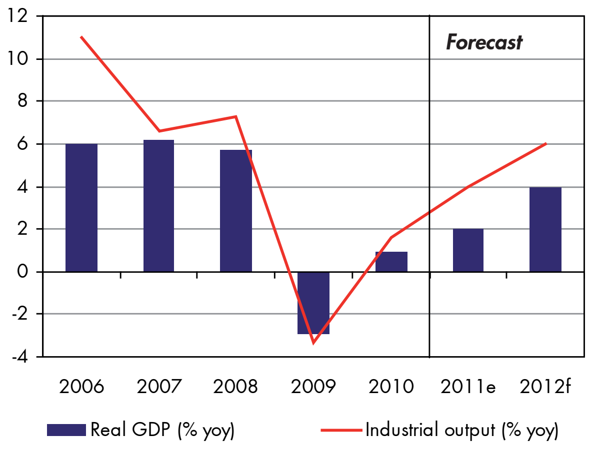
Key economic figures and forecasts

	2006	2007	2008	2009	2010	2011e	2012f
Nominal GDP (EUR bn)	23.3	28.8	33.4	30.2	29.6	33.6	36.2
Real GDP (% yoy)	3.6	5.4	3.8	-3.5	1.8	2.8	3.0
Industrial output (% yoy)	4.2	4.1	1.4	-12.6	2.5	5.0	7.0
Unemployment rate (avg, %)	20.9	18.1	13.6	16.1	20.0	19.5	18.5
Nominal industrial wages (% yoy)	23.8	23.7	13.2	5.0	10.0	9.0	9.5
Producer prices (avg, % yoy)	13.3	5.9	12.4	5.6	12.7	5.5	6.5
Consumer prices (avg, % yoy)	12.7	6.5	11.7	8.4	6.5	11.3	7.5
Consumer prices (eop, % yoy)	6.6	11.0	8.6	6.6	10.3	9.5	6.5
General budget balance (% of GDP)	-1.6	-1.9	-2.6	-4.3	-4.8	-4.0	-3.0
Current account balance (% of GDP)	-10.1	-17.6	-21.1	-6.9	-7.0	-8.6	-8.1
Official FX reserves (EUR bn)	9.0	9.7	8.2	10.6	10.0	10.5	10.6
EUR/RSD (avg)	84.19	79.98	81.48	93.94	102.95	102.88	105.37
USD/RSD (avg)	67.03	58.35	55.40	67.38	77.61	70.47	81.06

Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

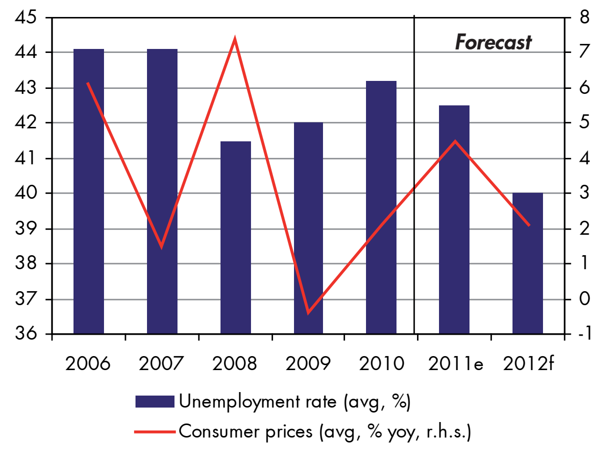
Economic upturn underway
despite political deadlock

Real GDP (% yoy)



Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Inflation outlook



Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Economic outlook

The economic trends seen during H1 2011 clearly illustrate the pace of the economic upturn driven by the recovered foreign demand from the EU, resulting in booming exports of metals, electricity, chemical products and machinery, which grew by 25% yoy. Besides the positive contribution made by exports to overall economic growth, we expect further signs of revival in domestic consumption and demand throughout H2 2011, as we see the pick-up in imports (23% yoy), VAT collection and credit flow dynamics in the banking sector (4.7%) as key indicators of private consumption development. However, the depressing picture in the labour market and low real income growth due to rising inflation pressures will result in quite subdued overall growth in consumption of 2.5% yoy in 2011.

Political outlook

Eight months after the parliamentary elections, B&H still has not completed the process of forming executive and legislative authorities at all levels. Even though entity governments were formed a few months ago, the political deadlock related to the establishment of the State Council of Ministers has only a minimum chance of being resolved before the autumn.
Due to the unexpectedly long political stagnation, 2011 can already be declared a lost year for B&H in terms of the EU and NATO accession process. The conditions remaining to acquire EU candidate status, and resolving the State Military Property problem, as a condition for opening the application process for the NATO Membership Action Plan, are still waiting for a more favourable political climate.

Ivona Kristic

Key economic figures and forecasts

	2006	2007	2008	2009	2010	2011e	2012f
Nominal GDP (EUR bn)	9.9	11.1	12.6	12.3	12.6	13.4	14.2
Real GDP (% yoy)	6.0	6.2	5.7	-2.9	0.9	2.0	4.0
Industrial output (% yoy)	11.0	6.6	7.3	-3.3	1.6	4.0	6.0
Unemployment rate (avg, %)	44.1	44.1	41.5	42.0	43.2	42.5	40.0
Nominal industrial wages (% yoy)	13.3	8.0	14.9	5.6	2.1	4.8	5.5
Producer prices (avg, % yoy)	4.5	0.6	7.5	-0.5	0.6	2.5	1.7
Consumer prices (avg, % yoy)	6.1	1.5	7.4	-0.4	2.1	4.5	2.1
Consumer prices (eop, % yoy)	6.6	4.9	3.8	0.0	3.1	4.0	1.8
General budget balance (% of GDP)	2.9	1.2	-2.2	-4.5	-4.0	-3.4	-3.0
Current account balance (% of GDP)	-7.9	-10.7	-14.2	-6.2	-5.2	-6.4	-7.2
Official FX reserves (EUR bn)	2.8	3.4	3.2	3.2	3.3	3.7	4.2
EUR/BAM (avg)	1.96	1.96	1.96	1.96	1.96	1.96	1.96
USD/BAM (avg)	1.56	1.43	1.33	1.40	1.47	1.34	1.50

Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

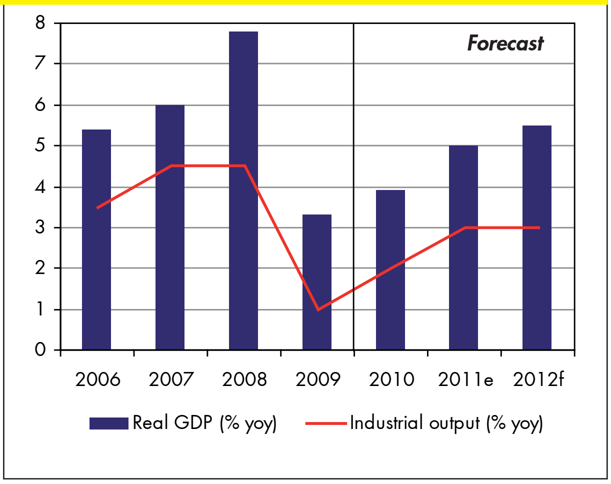
Mounting inflation pressures
leading towards higher interest rates

Economic outlook
After growth of 5.4% yoy in Q4 2010, the Albanian economy is expected to generate positive growth again during the first half of 2011. Economic expansion during Q1 was supported by fiscal stimulus due to the local elections; by the external sector and especially by the positive contribution of the industrial sector. With continuous improvements in the country's infrastructure, further growth is expected in transport, services and industry during 2011. Nevertheless, the GDP growth rate is likely to fall short of the initial forecast of the Ministry of Finance due to cuts in spending announced during the second half of 2011. Remittances decreased by 10% yoy in Q1 2011, but with the economic crisis deepening in Greece the impact on remittances and probably on the trade sector will be larger, as Greece is the main host country of Albanian immigrants and the second largest trade partner of the country.

Inflation outlook
The inflation rate has been falling after peaking at 4.5% in February 2011, but it was still above the target objective of the Bank of Albania for the fourth consecutive month. Positive contributions to the slower inflation rate are expected from the relative stability of the exchange rate and the increased domestic food supply during this period. The Bank of Albania increased the base rate by 25bp to 5.25% at the end of March 2011, in order to keep control of the inflation rate in the medium-term. Further depreciation of the local currency might generate inflation pressures in the economy, forcing the central bank to increase the repo rate in the coming months.

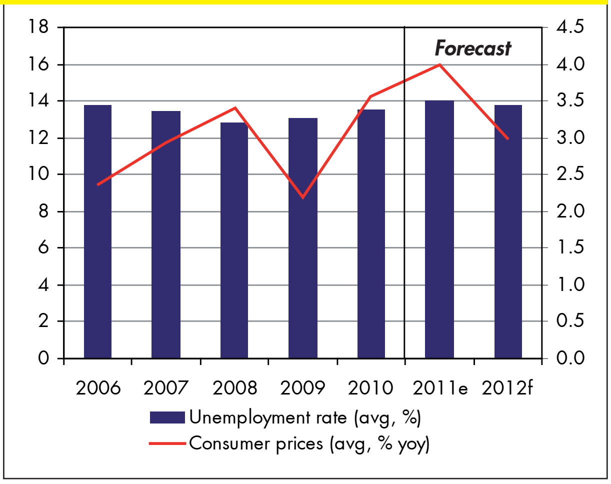
Valbona Gjeka

Real GDP (% yoy)



Source: Thomson Reuters, Raiffeisen RESEARCH

Inflation outlook



Source: Thomson Reuters, Raiffeisen RESEARCH

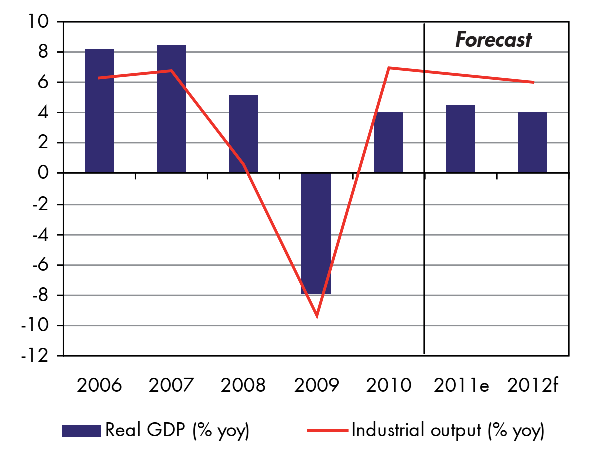
Key economic figures and forecasts

	2006	2007	2008	2009	2010	2011e	2012f
Nominal GDP (EUR bn)	7.2	7.8	8.9	8.8	9.4	10.0	10.9
Real GDP (% yoy)	5.4	6.0	7.8	3.3	3.9	5.0	5.5
Industrial output (% yoy)	3.5	4.5	4.5	1.0	2.0	3.0	3.0
Unemployment rate (avg, %)	13.8	13.5	12.8	13.0	13.5	14.0	13.8
Nominal industrial wages (% yoy)	8.7	12.7	4.0	4.0	8.0	8.0	8.0
Producer prices (avg, % yoy)	0.1	4.1	6.5	5.0	4.0	3.7	5.0
Consumer prices (avg, % yoy)	2.4	2.9	3.4	2.2	3.6	4.0	3.0
Consumer prices (eop, % yoy)	2.5	3.1	2.2	3.5	3.5	3.7	3.2
General budget balance (% of GDP)	-4.1	-4.8	-5.5	-7.0	-5.7	-5.6	-5.5
Current account balance (% of GDP)	-7.4	-10.6	-15.8	-15.6	-10.3	-11.0	-9.0
Official FX reserves (EUR bn)	1.3	1.3	1.7	1.6	1.9	1.9	1.9
EUR/ALL (avg)	123.14	123.62	122.80	132.06	137.79	140.51	141.00
USD/ALL (avg)	98.03	90.19	83.49	94.72	103.87	96.24	108.46

Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

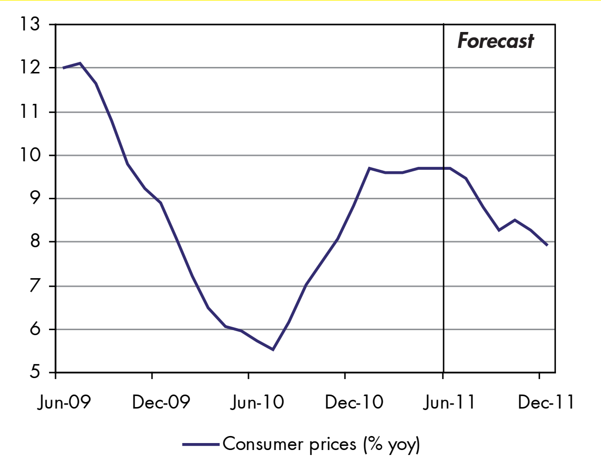
Intense political season slows investment activity

Real GDP (% yoy)



Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Inflation outlook



Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Economic outlook

Russia's economic recovery is continuing, albeit at a slower pace, and can be described as an investment-less recovery. Higher pre-election political risks and confusing rules about state involvement in economic life is affecting business confidence. So far Russia's growth remains within its medium-term potential and it will reach 4-5%, while the higher growth rates seen before 2008 are unlikely to be repeated without solid investment growth. On a more positive note we reckon inflation will come down thanks to the monetary tightening impasse and the tighter budget deficit due to higher oil prices and the resistance of the finance ministry to more spending.

Political outlook

The approaching elections are stirring up Russia's political life. Parliamentary elections will be held in December 2011 in which the ruling pro-Kremlin United Russia is expected to obtain an absolute majority. Yet the most intrigue surrounds the 2012 presidential elections. President Medvedev has substantially increased his political activity and public appearances, suggesting he has serious plans to remain in office after 2011. However, a recent consolidation of pro-Kremlin party forces under the United Political Front initiative driven by Prime Minister Putin sends a clear signal that Putin himself might seriously consider the possibility of returning to the Kremlin. Still, the absence of a front-running candidate from official political forces is creating a lot of confusion and stirring up tensions between the Medvedev and Putin camps. To our understanding this is decreasing investor confidence and impacting on the speed of the economic recovery.

Key economic figures and forecasts

	2006	2007	2008	2009	2010	2011e	2012f
Nominal GDP (EUR bn)	783.4	927.4	1133.6	883.4	1104.4	1286.2	1594.1
Real GDP (% yoy)	8.2	8.5	5.2	-7.9	4.0	4.5	4.0
Industrial output (% yoy)	6.3	6.8	0.6	-9.3	7.0	6.5	6.0
Unemployment rate (avg, %)	7.2	6.2	6.4	8.4	7.2	7.1	6.9
Nominal wages whole econ. (% yoy)	25.5	26.0	27.8	10.7	13.1	17.6	14.9
Producer prices (avg, % yoy)	12.4	14.2	21.4	-7.2	14.5	20.4	14.9
Consumer prices (avg, % yoy)	9.8	9.1	14.1	11.8	6.9	9.1	7.8
Consumer prices (eop, % yoy)	9.0	11.9	13.3	8.9	8.8	8.0	8.0
General budget balance (% of GDP)	8.4	6.0	4.9	-6.3	-4.1	-0.8	-0.2
Current account balance (% of GDP)	9.6	6.1	6.2	4.1	6.1	6.7	4.7
Official FX reserves (EUR bn)	223.7	319.0	296.0	283.4	336.0	377.7	485.5
EUR/RUB (avg)	34.36	35.85	36.55	44.26	40.29	40.87	37.82
USD/RUB (avg)	27.35	26.15	24.85	31.75	30.37	27.99	29.09

Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Exchange rate outlook

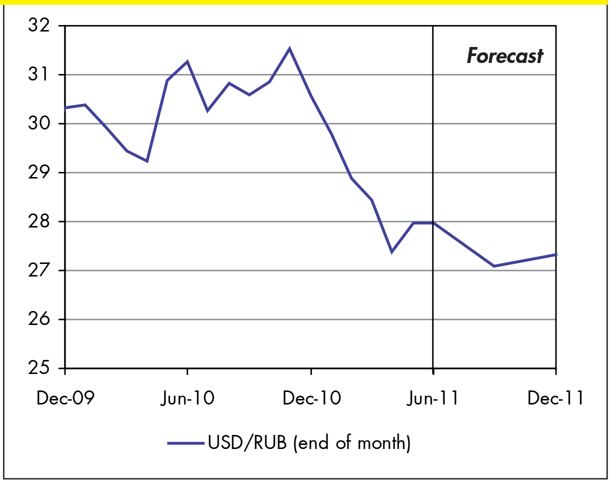
The rouble outlook remains solid due to the higher oil prices. Large trade surpluses are helping to offset the negative impact of the capital flight in the pre-election season. However, the rouble appreciation to date reflects this positive balance, while any further strengthening of the currency depends on monetary conditions and the future direction of oil prices. Our energy market forecast envisages oil prices firmly above USD 100 per barrel, while monetary tightening is likely to be replaced by relative fiscal tightening in H2. So far we expect moderate rouble appreciation in the coming quarter and, as a consequence, positive returns for rouble debt instruments.

Bond market outlook

The monetary tightening cycle in H1 helped to restore the rouble balance and contain inflation growth. Furthermore, the slower pace of inflation should signal the end of monetary tightening in H2. As a result we expect the central bank will remove the tightening bias by the end of Q3. Still, the bank may carry out one more 25bp rate hike before switching to a neutral bias if the decline in inflation is less pronounced during the summer months compared to the usual seasonal pattern. Winding down the tightening cycle coupled with the positive rouble outlook should be supportive for the domestic fixed income market. We expect moderately positive returns for government rouble debt and also for corporate debt. Market demand is likely to concentrate in the belly of the government curve, favouring the 2-5 year segment. However, oil prices will continue to determine the rouble market outlook as the biggest returns to be obtained from potential currency gains.

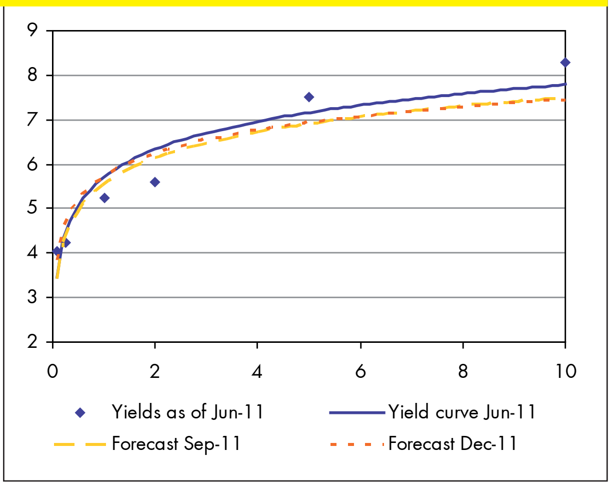
Gintaras Shlizhyus

USD/RUB outlook



Source: Thomson Reuters, Raiffeisen RESEARCH

RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

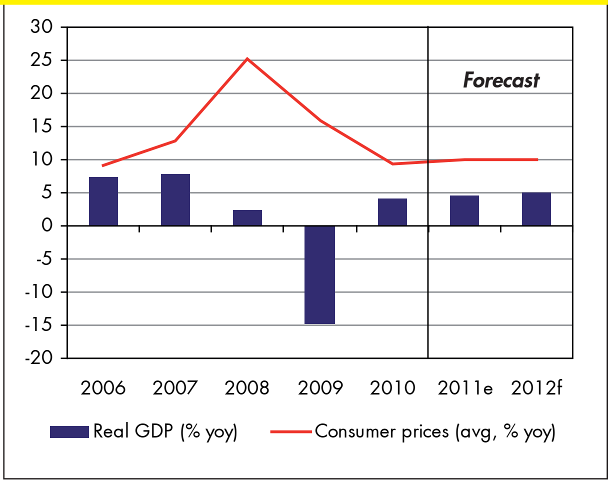
Exchange rate, interest rate and bond market outlook

	Coupon	Maturity	21-Jun*	Sep-11	EUR perf.	Dec-11	EUR perf.	Mar-12	EUR perf.	Jun-12	EUR perf.
EUR/RUB			40.2	**40.7**	-1.0	**39.6**	1.6	**39.6**	1.5	**38.0**	5.8
USD/RUB			28.0	27.1	3.4	27.3	2.5	28.3	-1.0	29.3	-4.2
Key rate**			8.25	**8.50**		**8.50**		**8.25**		**8.00**	
1m			4.1	**4.0**		**4.3**		**4.1**		**4.0**	
3m			4.2	**4.2**		**4.6**		**4.2**		**4.2**	
12m			5.2	**5.0**		**5.2**		**5.0**		**5.0**	
2y T-bond	6.7%	Feb-13	5.6	**5.5**	0.4	**5.6**	4.4	**6.3**	5.6	**6.3**	12.0
5y T-bond	6.9%	Aug-16	7.5	**7.2**	1.5	**7.5**	4.9	**7.3**	7.9	**7.3**	14.9
10y T-bond	7.6%	Apr-21	8.3	**8.0**	1.9	**7.7**	8.6	**7.6**	11	**7.6**	18.0

** 5:00 p.m. (CET); ** refinance rate; USD/LCY perf. in USD terms*
Source: Thomson Reuters, Raiffeisen RESEARCH

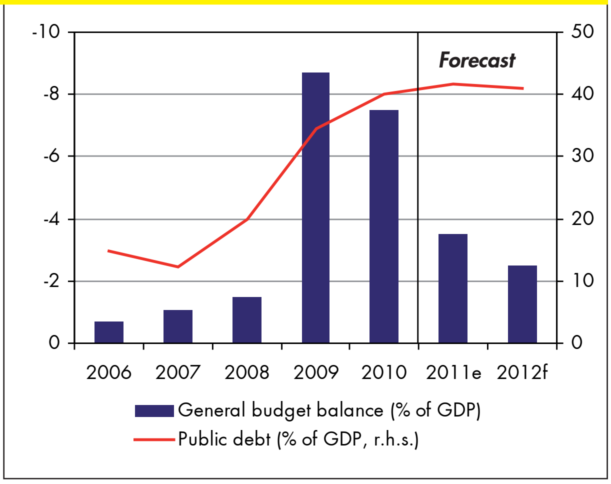
Moving to recovery
but facing bumps ahead

GDP growth and consumer prices (% yoy)



Source: State Statistics Committee of Ukraine, Raiffeisen RESEARCH

General budget balance and public debt



Source: State Statistics Committee of Ukraine, Raiffeisen RESEARCH

Economic outlook

The economy remains on a recovery path with GDP expanding by 5.2% yoy in Q1 2011. Private consumption was the main growth driver in the first quarter against a background of surging wages, decelerating inflation, and postponed tariff hikes. We expect a mild deceleration of economic growth over the coming quarters based on a stronger base effect, an unstable external environment, subdued credit growth, and tight fiscal and monetary policies. Recent industrial output data already reveals a slowdown in growth. According to our forecast, Ukraine's GDP will grow 4.5% in 2011. Inflationary pressures are on the upside as high food and global oil prices are triggering domestic price growth – eop CPI grew 11.0% as of end-May. The IMF programme still remains off-track given the authorities' reluctance to adopt politically sensitive measures (i.e. pension reform and tariff hike).

Fiscal outlook

Ukraine's fiscal situation has visibly improved this year against the background of robust revenue performance and favourable financing conditions. Budget revenues grew 21% yoy in Jan-Apr 2011 amidst the sustained economic recovery. Consequently, the government recently revised its revenue targets upwards for this year by 0.4% of GDP. The annual target for privatisation revenues has already been met thanks to the sale of Ukrtelecom for USD 1.3 bn. On the negative side, the persistently large financing gap in the state-owned gas company (its deficit might reach 1.5% of GDP this year) and the dragging of heels with the urgently needed pension reform (one of the largest pension expenses to GDP ratios in the world) are clearly damaging for longer-term fiscal sustainability.

Key economic figures and forecasts

	2006	2007	2008	2009	2010	2011e	2012f
Nominal GDP (EUR bn)	86.1	104.6	122.6	81.7	103.0	111.6	145.6
Real GDP (% yoy)	7.3	7.9	2.3	-14.8	4.2	4.5	5.0
Industrial output (% yoy)	6.2	10.2	-3.1	-21.9	11.0	6.5	5.0
Unemployment rate (avg, %)	6.8	6.4	6.4	9.0	8.5	7.2	6.5
Nominal industrial wages (% yoy)	25.3	28.2	29.8	5.0	15.0	17.5	17.5
Producer prices (avg, % yoy)	9.6	19.5	35.5	6.6	20.9	14.0	12.0
Consumer prices (avg, % yoy)	9.1	12.8	25.2	15.9	9.4	10.0	10.0
Consumer prices (eop, % yoy)	11.6	16.6	22.3	12.3	9.1	11.0	10.0
General budget balance (% of GDP)	-0.7	-1.1	-1.5	-8.7	-7.5	-3.5	-2.5
Current account balance (% of GDP)	-1.5	-3.7	-7.2	-1.6	-2.1	-2.5	-2.8
Official FX reserves (EUR bn)	16.6	21.7	22.2	17.8	24.8	25.9	33.3
EUR/UAH (avg)	6.32	6.89	7.73	11.17	10.54	11.50	10.30
USD/UAH (avg)	5.03	5.03	5.26	8.01	7.95	7.90	7.90

Source: wiiw. State Statistics Committee of Ukraine. National Bank of Ukraine. Raiffeisen RESEARCH

Exchange rate outlook

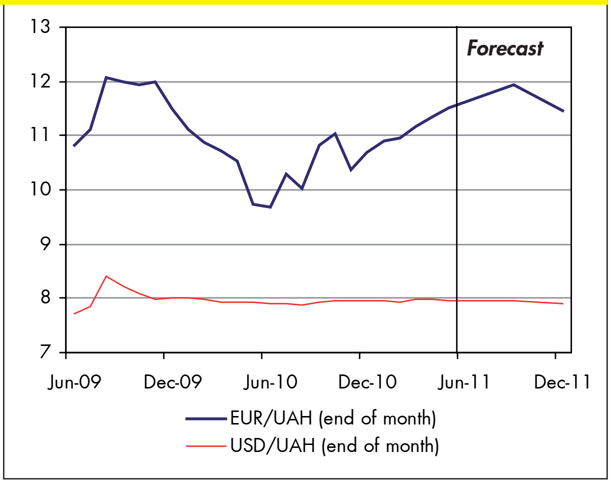
The National Bank continued to keep the exchange rate close to USD/UAH 8, tolerating some minor hryvnia weakening in May. The National Bank has been reluctant to intervene – apparently with an aim of accumulating FX reserves. Surplus cash demand is still a major drag on the FX market, reaching USD 900 mn per month, although we still do not see any signs of elevated depreciation expectations from households. As we expected the liberalisation of the FX market (i.e. the introduction of currency forward and swap operations, the permission of two-way intraday FX trading) had no immediate impact on the FX market as most market players have not yet started to use these instruments actively. The National Bank will most likely stick to its policy of pegging the hryvnia to the USD at the current rate, thus accepting real appreciation to the USD.

Bond market outlook

Despite the stalemate in IMF negotiations, Ukraine managed to successfully place USD 1.25 bn of a 5-year USD-denominated Eurobond in June. The government planned to issue Eurobonds for USD 4.5 bn this year, but has only attracted USD 2.75 bn so far. In addition there is still room to issue around USD 1.2 bn under state guarantees for financing preparations for EURO 2012. Further delays in the IMF programme could worsen the country risk perception by the markets. On the local government debt market, banks have continued to increase their holdings by an equivalent of USD 2.5 bn ytd, and surpassed – for the first time since the beginning of the crisis – the national bank as the main holder of local government debt. Yields inched down further resulting in barely double-digit figures for the 3y paper and VAT bonds. The downward trend may change as banks revive their lending activity, reducing the free liquidity of the banking sector.

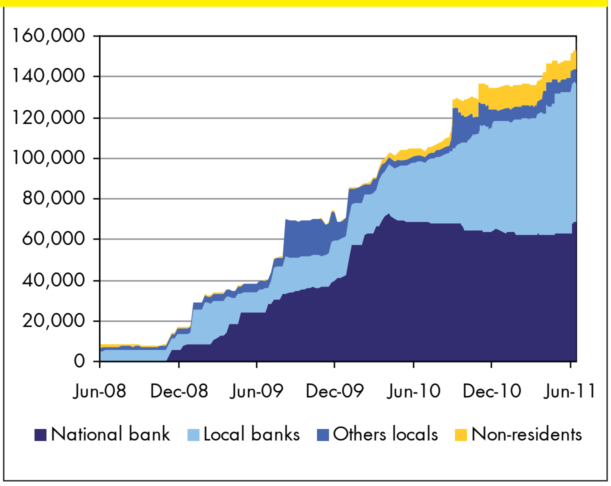
Dimitry Sologoub, Andreas Schwabe

USD/UAH and EUR/UAH



Source: Thomson Reuters, Raiffeisen RESEARCH

Local bond holdings (UAH mn)



** versus duration*
Source: Raiffeisen RESEARCH

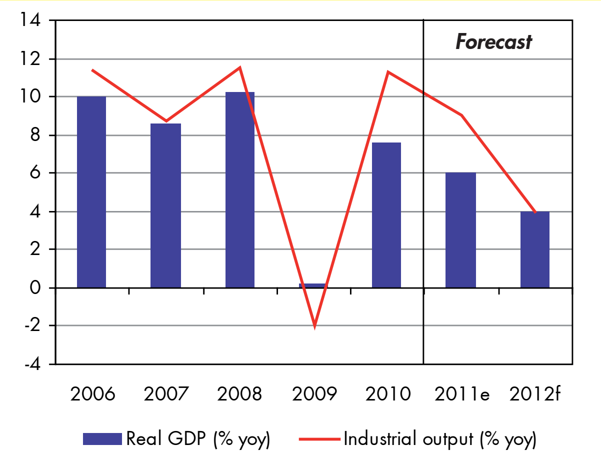
Exchange rate and interest rate outlook

	Coupon	Maturity	21-Jun*	Sep-11	EUR perf.	Dec-11	EUR perf.	Mar-12	EUR perf.	Jun-12	EUR perf.
EUR/UAH			11.48	11.93	-3.7	11.46	0.3	11.13	3.2	10.27	11.8
USD/UAH			7.99	7.95	0.5	7.90	1.1	7.95	0.5	7.90	1.1
Key rate**			7.75	8.00		8.50		8.50		8.50	
1m			5.0	n.a.		n.a.		n.a.		n.a.	
3m			7.0	n.a.		n.a.		n.a.		n.a.	
1y T-bill			8.0	8.3	-1.7	8.5	4.4	8.5	n.a.	8.0	n.a.
2y T-bond	9.86%	Dec-12	9.4	***9.5***	-1.4	***10.0***	4.6	***10.0***	10.6	***9.5***	23.0
3y T-bond	10.97%	Jan-14	10.5	***10.8***	-1.4	***11.0***	4.9	***11.0***	11.4	***10.5***	25.2

** 5:00 p.m. (CET); ** NBU discount rate*
Source: Thomson Reuters, Raiffeisen RESEARCH

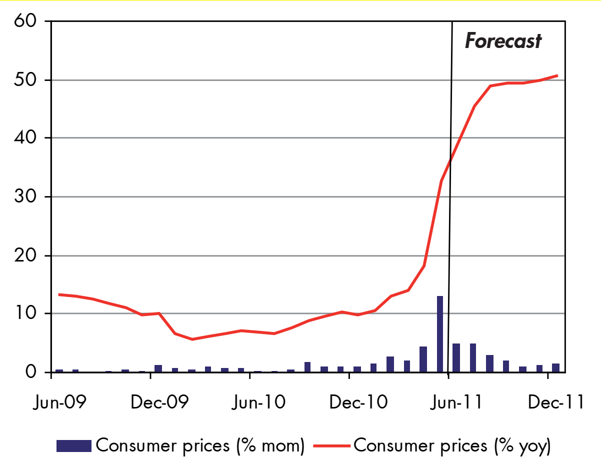
Devaluation done
now privatisation?

Real GDP (% yoy)



Source: Statistical Committee of the RB, Raiffeisen RESEARCH

Inflation outlook



Source: Statistical Committee of the RB, Raiffeisen RESEARCH

Economic outlook

In early 2011 Belarus slipped into a home-made liquidity and currency crisis, which is still unfolding and increasingly affecting the economic life of the country. An unsustainable high current account deficit and shrinking foreign exchange reserves triggered a run on the currency, a subsequent devaluation and skyrocketing inflation rates. FX shortages have led to considerable import constraints (especially consumer goods) and an increase in temporary unpaid leave. Somewhat contradicting these trends, official GDP expanded by a breathtaking rate of 12.5% yoy and capital investment by 30% yoy in the first five months of the year, as ambitious official growth targets were not revised downward by the government. And despite a 55% increase in merchandise exports the trade balance deficit almost doubled to USD 3.7 bn in the period from January to April in comparison to the previous year. In our opinion, a continuation of the current growth strategy (heavy investment in residential construction and stimulating consumer demand) would prolong the liquidity crisis and risk a "hard landing" of the economy, and therefore should be abandoned. The government has recently made some initial steps in the right direction by suspending residential construction and consumer lending at subsidised rates, limiting liquidity supply and raising interest rates. Such measures, if adhered to and expanded further, could substantially cut demand for hard currency and contribute to tackling the current liquidity problems.

Political outlook

The reactions of the Belarusian authorities to the crisis, both the National Bank and the government, were mostly administrative in nature as imbalances

Key economic figures and forecasts

	2006	2007	2008	2009	2010	2011e	2012f
Nominal GDP (EUR bn)	29.4	33.0	41.3	35.3	41.2	32.7	29.3
Real GDP (% yoy)	10.0	8.6	10.2	0.2	7.6	6.0	4.0
Industrial output (% yoy)	11.4	8.7	11.5	-2.0	11.3	9.0	4.0
Unemployment rate (avg, %)	1.1	1.0	0.8	0.9	0.7	4.0	6.0
Nominal industrial wages (% yoy)	25.8	20.8	28.5	9.5	30.8	25.0	20.0
Producer prices (avg, % yoy)	8.3	16.3	14.7	14.5	13.4	37.0	20.0
Consumer prices (avg, % yoy)	7.0	8.4	14.8	12.9	7.7	35.0	27.0
Consumer prices (eop, % yoy)	6.6	12.1	13.3	10.0	9.9	50.0	16.0
General budget balance (% of GDP)	1.4	0.4	1.4	-0.7	-2.6	-4.0	-3.0
Current account balance (% of GDP)	-3.9	-6.7	-8.7	-13.0	-15.5	-11.7	-15.1
Official FX reserves (EUR bn)	0.8	2.7	1.9	3.4	2.6	2.4	3.6
EUR/BYR (avg)	2694	2942	3142	3894	3951	6600	8500
USD/BYR (avg)	2145	2146	2136	2793	2979	4500	6500

Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

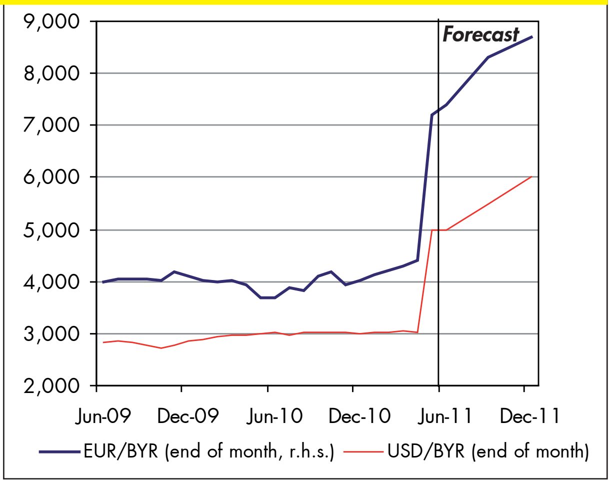
on financial and goods markets are not resolved by market forces but approached via various decrees and restrictions. Despite the recent steps to tighten monetary and fiscal policy, a comprehensive anti-crisis strategy is still lacking. Instead, hopes were put on a bailout by the Russian-led Eurasian Economic Community, which turned out much smaller than expected, meaning only USD 1.2 bn is to be released this year of an overall support package of USD 3 bn over three years. Economic conditions are attached to the program, which reportedly includes further policy tightening as well as privatisations of industrial assets, preferably to Russian buyers. In June, the IMF was approached for another Stand-By Arrangement as well (Belarus received USD 3.5 bn from the IMF in 2008-2009). This time, however, the IMF explicitly demands a commitment to structural reforms in the form of prior-actions (=preconditions) of a new loan. Real structural reforms required by the IMF are not likely to be acceptable to the Belarusian authorities; at the same time a decision from the (Western-dominated) IMF to lend to Belarus seems far-fetched. Thus the request of Belarus for IMF money appears to be a tactical move by local authorities, which continue to manoeuvre between Russia and the West. Despite the reluctance to sell strategic industrial assets, this option seems more realistic than an IMF program in the coming months (e.g. sale of the second half of Beltransgaz, perhaps part of Belaruskali).

Exchange rate outlook

In March the National Bank stopped backing the Belarusian rouble with its reserves, bringing the FX market to a near standstill. Multiple exchange rates emerged: the official exchange rate at which 20% of export proceeds are changed and mostly used for energy payments and debt servicing, a cash rate for currency conversion among the population and finally the interbank market rate for transactions between banks and corporations. In late May the official rate was devalued by 37% to USD/BYR 5000 and has since been maintained at this level. Despite a (reintroduced) ban on trading outside a 2% range around the official rate, the unification of FX rates failed as interbank trading volumes are shallow and the cash market is currently pricing in another 20% devaluation. The National Bank will try to maintain the current rate in the near term. However, we still see substantial risks to the downside, as the imminent liquidity crisis is still not contained, confidence of the population in the BYR is running low and there is no long-term solution to the country's economic problems in sight.

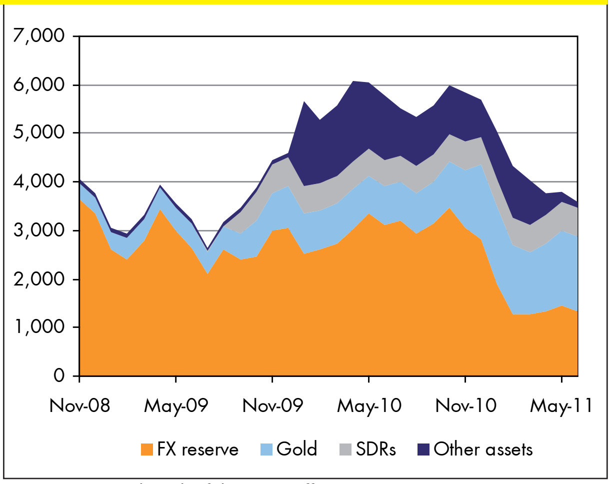
Andreas Schwabe

USD/BYR and EUR/BYR



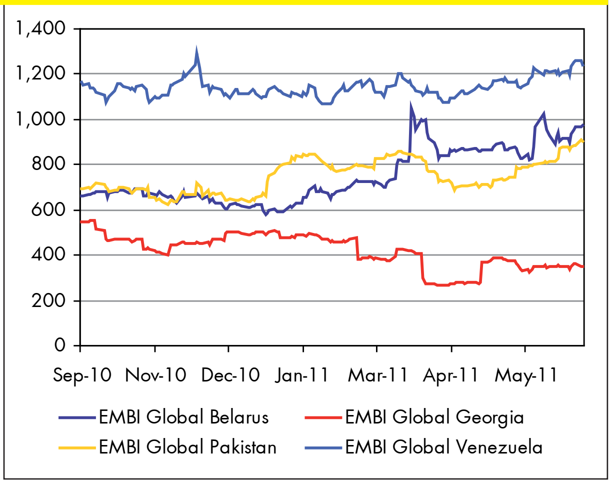
Source: National Bank of the RB, Raiffeisen RESEARCH

FX reserves under pressure (USD mn)



Source: National Bank of the RB, Raiffeisen RESEARCH

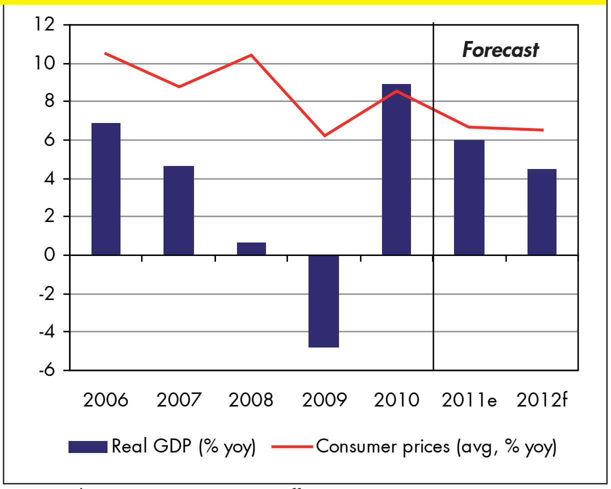
EMBIG spread comparison* (bp)



** USD segment; spread to US treasury curve*
Source: JP Morgan

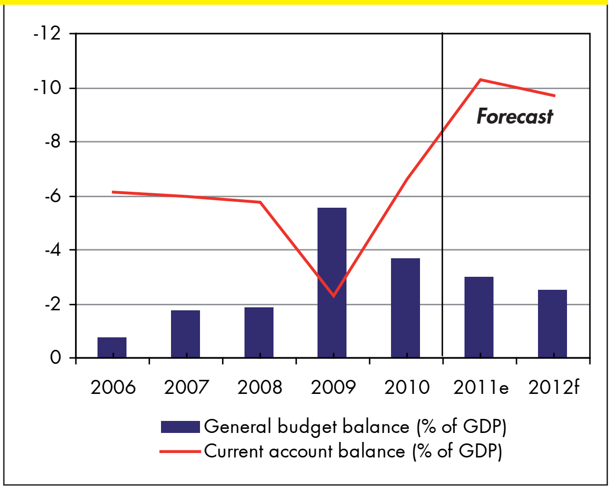
Economic slowdown in H2
current account deficit as main risk factor

Real GDP growth and inflation



Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Current account and fiscal balances*



*% of GDP
Source: National Bank of the RB, wiiw, Raiffeisen RESEARCH

Economic outlook

Growth last year beat all expectations coming in at 8.9% yoy. Yet leading indicators such as the Purchasing Managers' Index (PMI) and industrial production figures have suffered setbacks in recent months, which suggests the economy is cooling down. That said, economic growth will remain impressively high this year at 5-6%, thanks amongst other things to a statistical base effect. The rapid growth in credits coupled with the falling rate of unemployment should also prove supportive for economic activity. The massive external economic imbalance, however, is a threat: in the first four months of the year the current account deficit totalled just under USD 30 bn – double the amount from the same period in the previous year. Projections based on current trends suggest the deficit could rise further from 6.5% of GDP in 2010 to more than 10% of GDP in 2011!

Political outlook

As expected the AK party of the ruling Prime Minister Tayyip Erdogan won an impressive victory at the parliamentary elections in June. The AKP garnered 49.9% of the votes to take 326 of the 550 seats in parliament. Also represented in parliament is the main opposition party, the Kemalist CHP with 135 seats (25.9%), the nationalist-Kemalist MHP with 53 seats (13%) and 36 Kurdish members of parliament as independent candidates. Nonetheless the outcome fell short of the PM's expectations, who had his sights set on a two-thirds majority. This would have meant he could have pushed through constitutional changes without requiring the support of the opposition or having to turn to the population (referendums). Plans to re-design the constitution drafted by the military in the 1980s must now be implemented in cooperation with the opposition.

Key economic figures and forecasts

	2006	2007	2008	2009	2010	2011e	2012f
Nominal GDP (EUR bn)	418.9	471.0	495.0	437.6	552.6	545.3	667.5
Real GDP (% yoy)	6.9	4.7	0.7	-4.8	8.9	6.0	4.5
Industrial output (% yoy)	7.8	7.0	-0.6	-9.9	13.1	8.0	7.0
Unemployment rate (avg, %)	10.0	10.1	10.7	13.7	11.7	11.0	10.0
Nominal wages whole econ. (% yoy)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Producer prices (avg, % yoy)	9.3	6.3	12.7	1.2	8.5	11.1	7.0
Consumer prices (avg, % yoy)	10.5	8.8	10.4	6.3	8.6	6.6	6.5
Consumer prices (eop, % yoy)	9.6	8.4	10.1	6.5	6.4	8.5	6.5
General budget balance (% of GDP)	-0.8	-1.7	-1.9	-5.5	-3.7	-3.0	-2.5
Current account balance (% of GDP)	-6.1	-6.0	-5.8	-2.3	-6.6	-10.3	-9.7
Official FX reserves (EUR bn)	46.2	50.2	50.7	49.4	60.2	58.6	72.0
EUR/TRY (avg)	1.81	1.79	1.92	2.18	2.00	2.30	2.08
USD/TRY (avg)	1.44	1.31	1.31	1.55	1.51	1.57	1.60

Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Exchange rate outlook

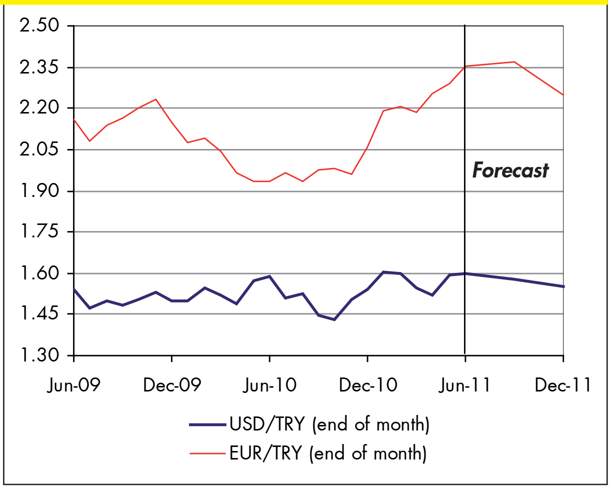
The most tangible success of the unorthodox policy of the central bank – cutting interest rates parallel to raising the minimum reserve ratios – has been a marked depreciation of the Turkish lira relative to the US dollar. Given the moderate rate of inflation the real exchange rate also fell below the long-term linear appreciation trend of the lira. Together with the expected hikes in the key rate this suggests a certain degree of appreciation potential for the lira in the coming months. At the same time there is plenty of uncertainty regarding the monetary policy of the central bank. What is more, it is very unlikely that the external economic imbalance can be redressed in the near future. This means the lira will be sensitive to upheaval on the global capital markets. We are rather sceptical about a renewed upwards trend and reckon the lira will trend sideward in the coming months against the USD.

Bond market outlook

The change in yields of local government bonds in Q2 was moderate after the strong increase in Q1. Although stable key interest rates and low inflation had paved the way for a reduction in yields of 50bp, this was soon undone again by higher risk aversion and rising pressure on prices. The annual inflation rate jumped in May from 4.2% to 7.2% and could well rise to approximately 9% by the end of the year – far above the inflation target of 5.5% and higher than the central bank's last inflation forecast of 6.9%. We reckon that the central bank will start raising interest rates in late Q3, and then mainly in Q4 2011, bringing the 1-week repo rate up by 100bp at the end of the year to 7.25%. This suggests that yields could rise once more, predominantly at the short end, i.e. the yield curve will flatten even more.

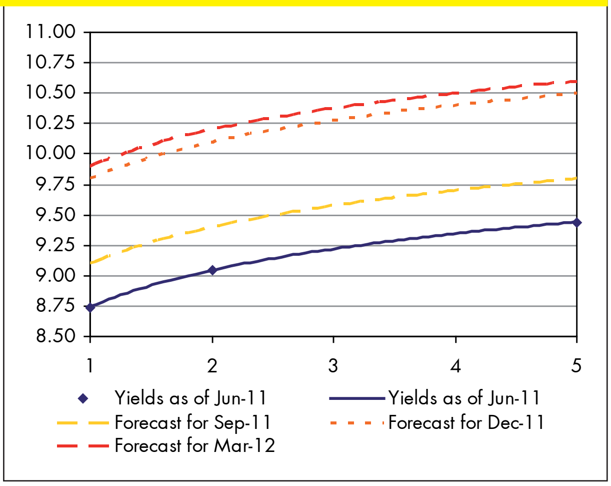
Andreas Schwabe

USD/TRY and EUR/TRY



Source: National Bank of the RB, Raiffeisen RESEARCH

TR yield curve



Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Exchange rate, interest rate and bond market outlook

	Coupon	Maturity	21-Jun*	Sep-11	EUR perf.	Dec-11	EUR perf.	Mar-12	EUR perf.	Jun-12	EUR perf.
EUR/TRY			2.31	2.37	-2.4	2.25	2.9	2.24	3.3	2.15	7.9
USD/TRY			1.61	1.58	1.9	1.55	3.8	1.60	0.6	1.65	-2.4
Key rate**			6.25	6.50		7.25		7.50		7.50	
1m			8.2	8.7		9.4		9.5		9.5	
3m			8.6	9.1		9.8		9.9		9.9	
12m			8.7	9.1		9.8		9.9		9.9	
2y T-bond	0.0%	Feb-13	9.1	***9.4***	-0.5	***10.1***	6.6	***10.2***	9.5	***9.9***	17.1
5y T-bond	9.0%	Jan-16	9.4	***9.8***	-0.3	***10.5***	5.5	***10.6***	8.2	***10.3***	16.7
10y T-bond	10.5%	Jan-20	9.5	***9.8***	-0.3	***10.5***	4.1	***10.6***	6.6	***10.3***	15.5

** 5:00 p.m. (CET); ** refinance rate; USD/LCY perf. in USD terms*
Source: Thomson Reuters, Raiffeisen RESEARCH

Inside Of This

(Outside Of That)[1]

EMBIG EUR returns*

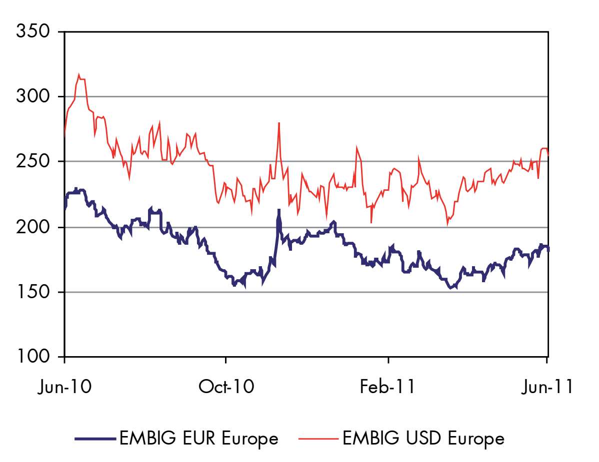
EUR segment	Return (%)		Spread (bp)
	last Q	yoy	actual
Composite	***2.04***	***5.01***	***187***
Europe (CEE)	***2.12***	***5.00***	***182***
Poland (A-)	2.66	3.40	144
Hungary (BBB-)	2.39	6.36	285
Croatia (BBB-)	1.61	6.88	256
Lithuania (BBB)	1.60	7.49	172
Romania (BB+)	1.35	9.24	278
Turkey (BB)	1.14	5.47	200
Bulgaria (BBB)	0.87	4.52	159
Ukraine (B+)	-0.86	10.58	485
Other segments			
Asia	2.14	2.54	110
Africa	1.51	3.95	144
Latin America	1.75	6.38	218

EMBIG USD returns*

USD segment	Return (%)		Spread (bp)
	last Q	yoy	actual
Composite	***3.38***	***10.96***	***317***
Europe (CEE)	***2.91***	***10.77***	***255***
Hungary (BBB-)	4.71	12.70	286
Turkey (BB)	3.44	9.84	222
Poland (A-)	3.12	7.94	168
Bulgaria (BBB)	2.27	12.64	201
Russia (BBB)	2.27	10.35	223
Ukraine (B+)	1.84	14.17	482
Serbia (BB)	1.19	10.15	427
Other segments			
Asia	3.63	9.91	202
Africa	4.81	7.94	318
Latin America	3.57	11.83	392

**sorted by last Q performance*
Net return not annualised in %, S&P rating in brackets
Source: JP Morgan, S&P, Raiffeisen RESEARCH

EMBIG Europe spread (bp), EUR vs. USD



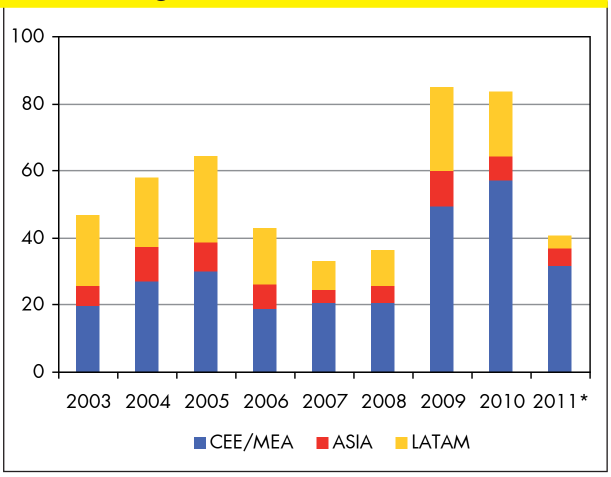
Source: JP Morgan, Raiffeisen RESEARCH

Contrary to our initial expectations the external debt markets performed fairly well in Q2. The Greek crisis actually boosted the emerging markets (EM). EM debt reaped the benefits of low interest rates in developed markets and the influx of liquidity from crossover funds which increasingly relocated part of their cash from the distressed Eurozone into higher-beta EM. Fundamentally, more EM countries including CEE were also better prepared this time round, demonstrating stronger fundamentals and actively reducing imbalances through a combination of domestic fiscal austerity measures and the active pre-financing of debt payments. Rating pressure eased considerably too, with fewer negative outlooks, while the number of positive outlooks and upgrades have increased throughout 2011 to date, revealing a positive rating drift. Furthermore, we have observed declining risk aversion, which manifested itself in higher returns on the bonds of Hungary, Croatia, Romania and Turkey. Among A-rated issuers only the Polish market managed to climb to the top before it was strongly underpriced. Interestingly, Russia failed to capitalise on the surging oil prices with its return being closer to the end of the list (see table on left-hand side). Unsurprisingly the USD EMBIG outperformed the EUR segment thanks to stable low interest rates in the USA and the weaker outlook for the euro itself. Primary market activity remained strong in the emerging markets with CEE sovereigns accounting for the lion's share of new sovereign issues from EM. Suffice to say that the CEE region accounted for nearly 78% of all new sovereign Eurobonds issued in EM worldwide. In Q2 Russia, Ukraine, Romania, Hungary and Latvia successfully placed new issues, whereby only Russia issued in roubles while the others tapped the EUR and USD markets. Moreover, according to the Russian government the country will not issue in the EUR or USD market this year at least since oil revenue will be strong, reducing the need for external borrowing. This assumes a fairly positive technical picture for the CEE markets as in our calculation about 70% of sovereign external borrowing needs were pre-financed in 2011 so far. Looking ahead to the next quarter we see a combination of strong market and interest rate risks from developed markets decreasing the attractiveness of EM debt. Indeed, z-scores for most EMBIG countries are close to +2, indicating that a lower risk is being priced in. At the same time our analysts covering developed markets expect a deterioration of the interest-rate outlook for the US and EU markets in Q3, and a touch more in Q4. Conse-

1 Outside Of This (Inside Of That) appears on the album "The Friends Of Mr Cairo" of Jon & Vangelis quently underlying bond yields will increase and this may exert negative pressure on EM spreads going forward. On a positive note we expect a smaller supply of new issues from CEE in the coming months as the bulk of the new issues have already occurred in Q1-Q2. Still, the CEE market grew in size to become the biggest EM debt segment, which potentially also means increased vulnerability of CEE to market shocks. Talking about new issues we would like to mention Croatia's plans for a EUR 1bn benchmark bond in the coming weeks, and the City of Kiev's USD 300 mn bond (Ukraine). The Czech Republic is planning a jumbo EUR 1-2 bn issue this year, while Serbia and Macedonia may also issue by the end of 2011. We project a mixed development in the CEE Eurobond market in Q3. On the one hand we expect spreads for quite a few CEE countries to drop further reflecting stronger fundamentals and positive outlooks. On the other hand, increasing yields across EUR and USD markets can exert negative pressure on EM debt prices. Consequently, we expect yields on EM Eurobonds to widen even though the spreads between EM bonds and developed market bonds may contract at the same time. This relative widening is likely to bring price stagnation to the EM as coupons will provide the only source of gains. However, we expect the USD market to hold up better in comparison to the EUR market where the Eurozone's own problems will dampen the EUR currency outlook. That said, we still see a chance to outperform the market by holding Serbia, Ukraine and Turkey USD issues. In the EUR segment we expect Bulgaria, Romania and Lithuania to outperform the EMBIG benchmark. Nevertheless, higher risk and volatility prompt us to recommend shorter-term bonds with a lower convexity, which should have a lesser downside.

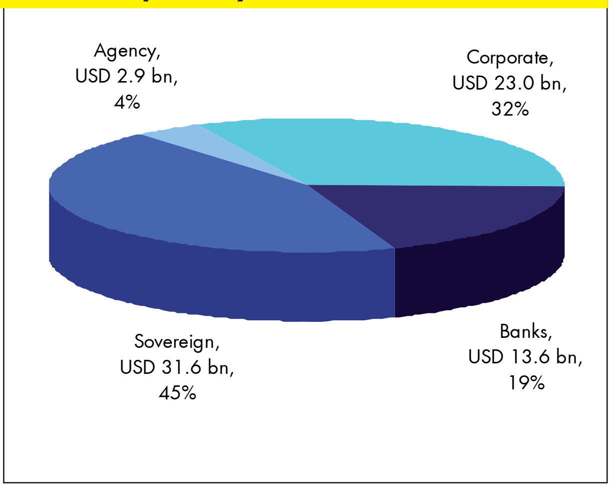
Gintaras Shlizhyus, Gunter Deuber

EM sovereign eurobond issue, USD bn



** 2011 year-to-date*
Source: Bloomberg, Raiffeisen RESEARCH

CEE/MEA primary market breakdown 2011



** % total, 2011 year-to-date*
Source: Bloomberg, Raiffeisen RESEARCH

EMBIG forecast and performance

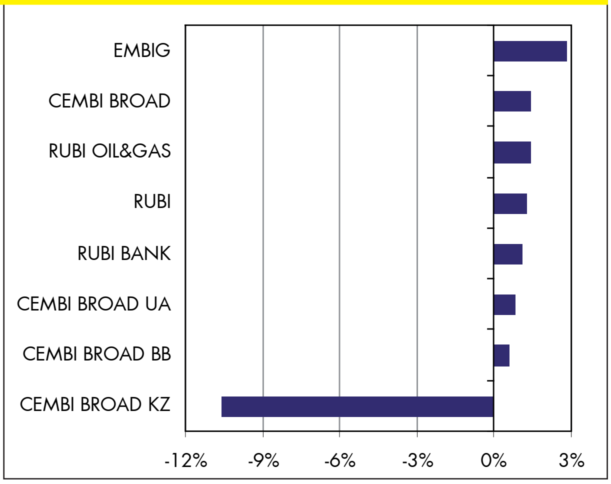
			Spread		Range			Spread	Range			Spread	Range		
		Dur.	21-Jun*	Sep-11	min.	max.	Perf. (%)	Dec-11	min.	max.	Perf. (%)	Mar-12	min.	max.	Perf. (%)
Poland (A-)	EUR	5.8	144	125	118	132	-2.12	95	88	102	-0.97	110	103	117	-2.98
	USD	4.7	168	140	131	149	-1.90	135	126	144	-0.26	140	131	149	-0.96
Lithuania (BBB)	EUR	3.3	172	145	134	156	-0.95	120	109	131	-0.45	140	129	151	-1.77
Hungary (BBB-)	EUR	4.1	285	280	268	292	-2.03	250	238	262	-1.22	270	258	282	-2.84
Bulgaria (BBB)	EUR	1.4	159	110	102	118	-0.09	100	92	108	-0.09	115	107	123	-0.59
Russia (BBB)	USD	5.8	223	200	187	213	-2.65	180	167	193	0.26	190	177	203	-0.91
Croatia (BBB-)	EUR	2.9	256	245	232	258	-1.28	230	217	243	-1.14	240	227	253	-1.99
Romania (BB+)	EUR	4.3	278	240	223	257	-0.75	220	203	237	-0.33	240	223	257	-2.04
Serbia (BB)	USD	5.1	427	400	380	420	-2.12	380	360	400	0.42	390	370	410	-0.59
Turkey (BB)	EUR	4.6	200	175	160	190	-1.43	160	145	175	-1.20	170	155	185	-2.59
	USD	7.6	222	200	187	213	-1.62	190	177	203	-0.11	200	187	213	-2.38
Ukraine (B+)	EUR	3.6	485	465	427	503	-1.27	435	397	473	-0.55	440	402	478	-1.44
	USD	4.5	482	460	433	487	-2.09	440	413	467	0.15	450	423	477	-0.74

** closing prices 11:59 p.m. (CET); Perf. as cumulative return of gross prices up to forecast horizon, countries sorted by S&P rating*
Source: JP Morgan, S&P, Raiffeisen RESEARCH

Kazakhstan in focus

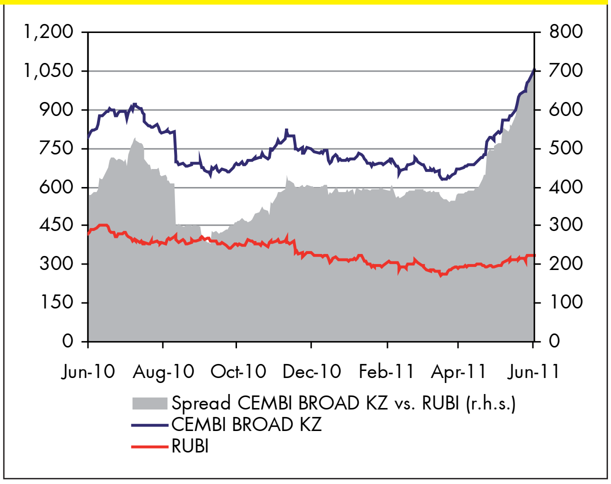
No silver bullet for Kazakh banking in sight

Q2 2011 returns



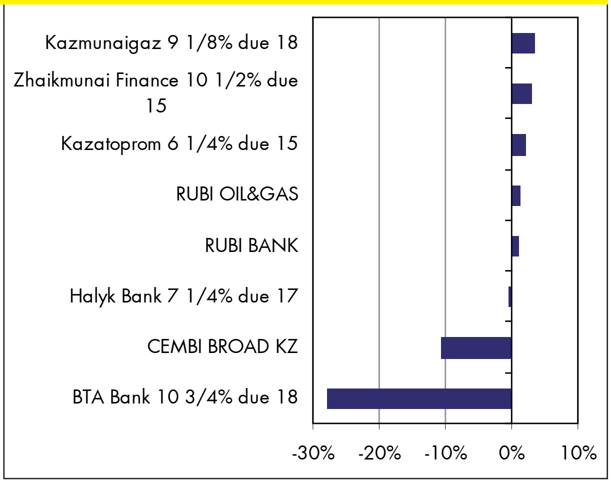
Source: JP Morgan, Raiffeisen RESEARCH

Spread development



Source: JP Morgan, Raiffeisen RESEARCH

Selected Q2 2011 returns



Source: JP Morgan, Raiffeisen RESEARCH

Since end-Q1 the total return on the JP Morgan CEMBI KZ Index slipped to -10.6%, which could in large part be explained by the repricing of BTA Bank's risk in May. It should also be noted that BTA's 2018 bond accounts for about 24% of the index's total market capitalisation – by far the largest constituent in the CEMBI KZ. The repricing of the bank's risk as a result of its disappointing FY 2010 results, which were exacerbated further by the vanishing prospect of Sberbank pushing on with its purchase of BTA, translated into a slide in the latter's bond prices. This was followed by further selling of the bonds of KKB and Alliance Bank.

On the contrary, non-financial corporate issuers from Kazakhstan have seen rather robust performance since end-Q1. The only non-financial paper included in the CEMBI KZ index is that of oil project firm Zhaikmunai, which has recorded a total return of 3% since end-Q1 2011. We believe that the booming oil price and juicy valuations were the reasons behind that, despite some delays in the development of the company's projects. The remaining KZ corporates have also done well, with NC KazMunaiGaz (KMG) issues outperforming Russian oils, while Kazatomprom and Temir Zholy beat the RUBI Index. The only exception was Tengizchevroil (TCO), which posted positive, albeit less spectacular performance.

The rating front was clearly not a driver of KZ bond performance over the past quarter. Kazakh non-financial credits have witnessed no rating actions, whereas banks have seen some minor events (for instance, the negative watch attached to ATF Bank by Moody's). In addition BTA was upgraded to B3 from Caa3 by Moody's, although this failed to impress investors.

The fundamental picture in Kazakh banking shows only patchy signs of improvement, and does not coincide with the more solid macroeconomic conditions and improving credit metrics of the corporate sector, which in turn is due in large part to growing revenues from oil sales. While some banks, including Halyk and Bank CenterCredit, are suffering from an overhang of liquid assets resulting from bulky inflows of customer deposits, others, such as KKB, have taken an overly conservative stance towards lending and are concentrating on work-outs and restructuring their lending portfolios. All in all, margin compression and weak pre-provision profitability resulting from excessive liquidity, stalled underwriting and larger volumes of rescheduled loans are the factors behind falling net interest margins, which contrast with deteriorating asset quality and high provisioning charges.

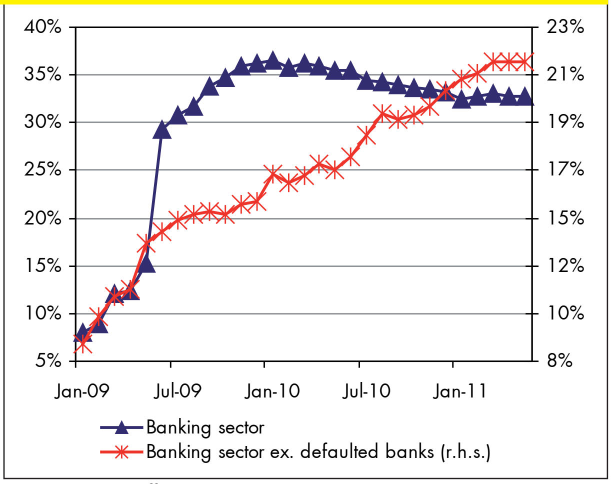
The primary market offers some technical support, as only KKB tapped the Eurobond market in April, reviving the issue postponed in November 2010. The scarcity value of Kazakh banking bonds should be further supported by the reduced probability of any issuance given the high liquidity overhang and the deleveraging currently underway. On the other hand, Kazakh non-financials remain on our list of the usual suspects likely to print new debt, and we still view KazMunaiGaz as a potential Eurobond borrower in 2011. We think that one of the motivating factors behind KMG's decision about whether to borrow or not will be the company's ability to withdraw its deposited funds from the local banking system. Furthermore, we again feel that we might see new paper from Tengizchevroil. The oil company has recently updated its strategic plans to boost crude production by around 40% by 2016. The project might cost USD 15-20 bn and borrowings are among the funding options.

We do not expect a silver bullet that will solve the lingering problems in the Kazakh banking sector. However, to some extent the proposed DAF2 framework and changed tax treatment of write-offs might accelerate new underwriting in H2 2011. As things stand now, we do not consider a renewed squeeze of BTA's bondholders as imminent while a) large ticket redemptions are only due in 2018 and beyond, b) the bank has been operating for less than a year following its restructuring, and c) the solvency risks are currently manageable as the bank is not in breach of any covenants. Some positive effects might be incorporated into prices over the short term if the bank's management succeeds in renegotiating the repo rates, thereby lowering funding costs somewhat. However, we do not believe that this would dramatically change sentiment on the lender before more confidence is regained on the recoveries front, which cannot, per se, reasonably be expected to happen during the summer break.

On the valuation side, Kazakh banks clearly look more attractive than corporates. On the whole, we believe that KZ non-financials are fairly priced compared to their Russian counterparts and we would only pinpoint KMG's 2013 bond as an investment opportunity that offers a reasonable spread uplift compared to other short-term investment-grade-rated CIS papers. Among banks we prefer Halyk Bank as the most solid credit in the Kazakh banking segment.

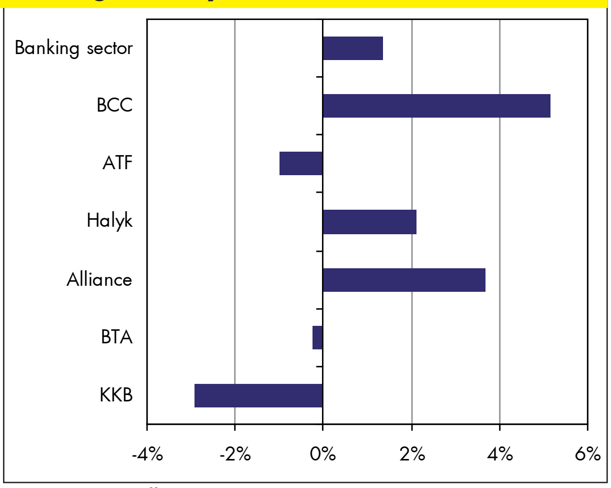
Martin Kutny, Alexander Sklemin

Non-performing loans



Source: AFN, Raiffeisen RESEARCH

Loans growth (ytd)



Source: AFN, Raiffeisen RESEARCH

Spread forecasts

Index (in bp)	*21-Jun**	*Q3 2011*	*Q4 2011*	*Q1 2012*	*Q2 2012*
RUBI Bank	378	310	275	250	250
RUBI Oil&gas	278	230	215	200	200

** closing price 11:59 p.m. (CET)*
Source: JP Morgan, Raiffeisen RESEARCH

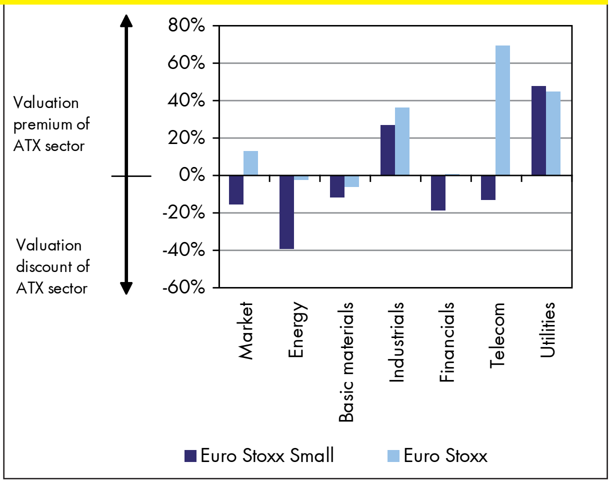
Risk factors
set to hinder price performance

Value matrix*

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

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

Relative P/E 2011e ATX



Source: Thomson Reuters, Raiffeisen RESEARCH, Raiffeisen Centrobank

Sector structure ATX

Sector	Company	Weight
Financials	CA Immobilien, conwert, Erste Group, Immofinanz, Raiffeisen International, Vienna Insurance Group	42.8%
Industrials	Andritz, Österreichische Post, Strabag, Wienerberger, Zumtobel	16.5%
Energy	OMV, Schoeller-Bleckmann	13.5%
Basic materials	RHI, voestalpine	11.7%
Telecom	Telekom Austria	7.8%
Utilities	EVN, Verbund	6.5%
Consumer discretionary	Semperit	0.9%
Health care	Intercell	0.3%

Source: Raiffeisen RESEARCH, Raiffeisen Centrobank, Vienna Stock Exchange

The Austrian equities market posted a rather weak performance in the course of the last observation period, in contrast to our expectations. Alongside the general stumbling blocks such as public debt and concerns about economic activity, local issues are also generating some ill-feeling among investors. For example, fears about capital increases at one or other of the heavyweights in the index were not without consequences for share price development. Additionally, it is becoming increasingly clear that the new capital gain tax has had an obviously negative impact on the trading floor and quite evidently resulted in significant purchases being brought forward last year. It is also striking that the trading volumes on the Vienna Stock Exchange have fallen sharply, especially in the last two months.

If we take a look at economic developments, Austria can easily be ranked among the countries that have managed to display the most robust rates of growth within the eurozone. Exports and investments in particular have been solid drivers of economic activity. However, with some leading indicators falling at a few of the country's main trading partners we are seeing the first signs of weaker export dynamics. Nonetheless, in 2011 Austria will grow more strongly than the eurozone as a whole again (+2.0%), posting a rate of 3.3%. With public debt still being such a hot topic we view the relatively stable public finance situation in Austria as a plus point for the local capital market. Throughout the region of Eastern Europe the recovery in SEE especially will create solid foundations for growth, with SEE expected to register a growth rate of just under 1.9%. Looking at the CEE region as a whole the growth figure of 3.8% is remarkable. Accordingly, we continue to view economic developments as being supportive of the Austrian market.

As far as corporate earnings are concerned, the results published most recently certainly reflect the robust economic activity at present. Admittedly there were few positive surprises, but the majority of companies managed to meet market expectations and the disappointing results were certainly in the minority. It should also be noted here that the quality of the results in some cases was rather weak. Generally speaking the positive earnings trend emanating from the US and the Western European reporting season was not fully replicated in Austria. It also remains to be seen what effects the input cost pressure and the strength of the euro will have in the coming quarters.

We anticipate a solid increase in earnings growth this year. The estimates for the DAX and the Euro Stoxx 50 come in at just 3.3% and 9.9%, but for the companies on the ATX we are looking at aggregate growth of approximately 31.8% for 2011, followed by 20.9% in 2012. These figures are naturally reflected in the valuations too, which combined with the falling prices in recent times have reached satisfactory levels again. With a P/E ratio of 12.0 for 2011 and 9.9 for 2012 the Austrian market is not exactly expensive. This means the premium to any of its Eastern European peers does not seem too large.
In terms of the performance for the coming weeks we still expect some volatility, and much will depend on how things progress with Greece. We believe that sooner or later a new bail-out package will be provided for this ailing southern state, whereby one of the factors ensuring continued uncertainty in particular will be the involvement of private investors. At the minute we do not reckon there is much justification for the fears of a massive slowdown in economic growth in the most important economic areas. In terms of Austria and Eastern Europe we rate this threat as a low risk. All in all we expect the uncertainties in the market to endure for the time being. Although the fundamentals of the Austrian equities market are not exactly unattractive at present, we nevertheless believe that the share price development of the ATX will ultimately be rather subdued in the course of the next observation period on account of the prevailing risk factors, and only later on in 2011 it will head off in the direction of the 3000 point mark. ***Hold***.

Johannes Mattner

Fair value of ATX - June 2012*

EY-BY**	Bond yields (10y) 3.25%	3.50%	3.75%
6.75%	2,752	2,685	2,621
6.50%	2,822	2,752	2,685
6.25%	2,896	2,822	2,752
6.00%	2,975	2,896	2,822
5.75%	3,057	2,975	2,896
5.50%	3,145	3,057	2,975
5.25%	3,237	3,145	3,057
5.00%	3,335	3,237	3,145
4.75%	3,440	3,335	3,237
4.50%	3,550	3,440	3,335
4.25%	3,669	3,550	3,440
4.00%	3,795	3,669	3,550
3.75%	3,931	3,795	3,669
3.50%	4,076	3,931	3,795

** based on the expected earnings for 2011/2012 (i.e. 275.2 index points)*
*** earnings yield less bond yield*
Source: Raiffeisen RESEARCH, Raiffeisen Centrobank

Earnings yield less bond yield (in %)*

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

Valuation and forecasts

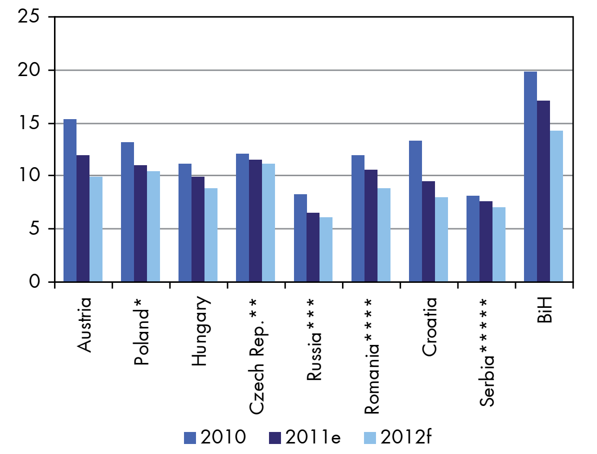
	21-Jun	Sep-11	Dec-11	Mar-12	Jun-12
12-months forward earnings	275.2	239.4	251.4	263.3	275.2
Bond yield forecast	3.49	3.62	3.70	3.85	3.55
Earnings yield less bond yield (EY-BY)	***6.59***	***4.75***	***4.50***	***4.75***	***6.00***
ATX-forecast based on EY-BY		2860	3066	3061	2881
ATX-forecast	***2,731.3***	***2,850***	***3,000***	***3,050***	***2,850***
Expected price change		4.3%	9.8%	11.7%	4.3%
Range		2600-3100	2600-3100	2800-3500	2900-3500
P/E based on 12-month forward earnings	9.9	11.9	11.9	11.6	10.4

** 23:59 p.m. (CET); Source: Raiffeisen RESEARCH, Raiffeisen Centrobank*

Stable stock prices

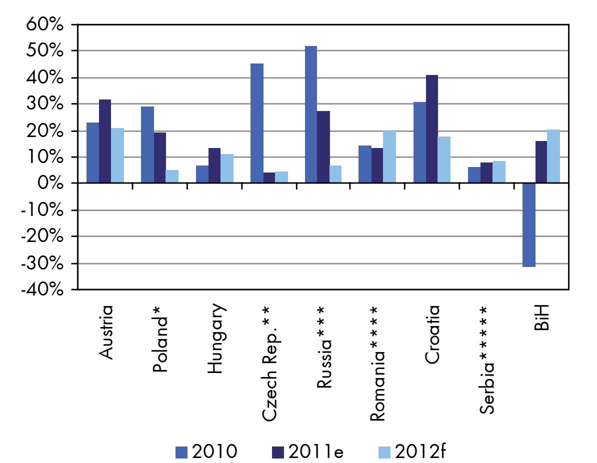
Forget the summer slumber

P/E ratios in comparison



*Poland (WIG 20): excl. CEZ and PZU; ** Czech Rep. (PX): excl. Erste Group and Vienna Insurance Group; *** Russia (MICEX): excl. Inter RAO, Sberbank Pref. and Surgutneftegaz Pref.; **** Romania (BET): excl. BVB and SSIF Broker ***** Serbia (BELEX15): excl. Alfa Plam, Aerodrom, Imlek, Jubmes Banka, NIS, Tigar and Veterinarski
Source: Thomson Reuters, IBES, Bloomberg, Raiffeisen RESEARCH

Earnings growth



*Poland (WIG 20): excl. CEZ and PZU; ** Czech Rep. (PX): excl. Erste Group and Vienna Insurance Group; *** Russia (MICEX): excl. Inter RAO, Sberbank Pref. and Surgutneftegaz Pref.; **** Romania (BET): excl. BVB and SSIF Broker ***** Serbia (BELEX15): excl. Alfa Plam, Aerodrom, Imlek, Jubmes Banka, NIS, Tigar and Veterinarski
Source: Thomson Reuters, IBES, Bloomberg, Raiffeisen RESEARCH

In CEE too the second quarter was influenced by the flare up of the European debt crisis again (chiefly Greece). Besides the wranglings between politicians and the ECB, the nerves of international investors were increasingly unsettled, above all because of the reactions of the Greek trade unions and the population as well as by the internal political pressure on Prime Minister Papandreou. Under these circumstances the established stock exchanges in the CE region (Hungary, Poland and the Czech Republic) held up considerably better than the riskier SEE and Russia managed to do. Generally speaking we assume there will be a short-term "solution" found to the problem (which means new loans for Greece), but this should be sufficient to calm the equity markets down again. Taking a longer-term view though we reckon the Greece situation will be extremely difficult to resolve and so it will crop up again and again in some shape or form. This is signalled by the setback shown for the second quarter of 2012, where the combination of politics, the ECB and developments in Greece mean it is not possible to pinpoint the timing more precisely at present. We are confident for the third quarter on account of the emerging political solution, which is why we prefer a cyclical sector focus.

In the second quarter the ***Russian MICEX*** index turned in an extremely weak performance of -9.8%. Yet in addition to the cooling of international sentiment it was also local factors – such as the growing political uncertainty (= presidential elections) and the recent downturn in economic activity that took centre stage. Although issues such as net capital outflows from Russia (with the exception of ETFs and equity funds) and an investment climate in need of improvement are still relevant, we reckon there will at least be modest price gains – by Russian standards. This is because the tension surrounding Greece should alleviate soon and thus help to brighten the mood on the whole; what is more, the recent fall in prices is also ideal for re-entering the market, even taking seasonal fac-

Value matrix stock markets

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

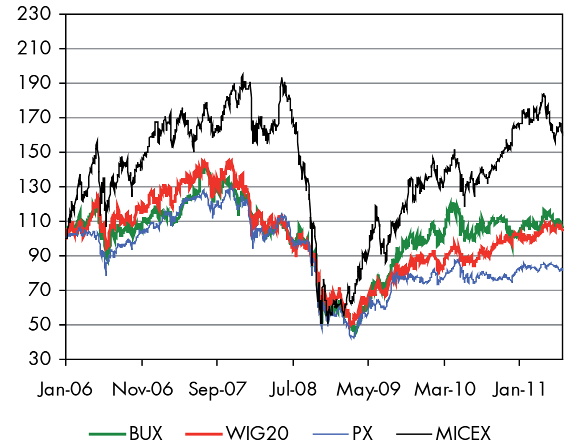
1 (4) denotes highly positive (negative) influence on the market. All factors are weighted equally. Assessment refers to a 3-month period.
Source: Raiffeisen RESEARCH

tors into consideration. The price of oil is likely to remain at its currently high level and therefore generate some earnings growth in the balance sheets of energy companies. A stepped up privatisation programme and the upcoming WTO accession are also good for confidence. Furthermore, a valuation comprising a 2011e P/E of 6.6 and a P/B ratio of 1.1 are extremely attractive even by global standards. ***BUY***.

The ***Polish*** stock index ***WIG 20*** was able to decouple itself from the uncertain international climate by venturing into positive territory in the second quarter in terms of performance. Apart from the very solid fundamentals (aggregate earnings growth forecast in 2011: 19.5% and aggregate P/E 2011: 11.0) and the beneficial economic conditions (expected GDP growth in 2011: 4.1%) the earnings announced by most companies were also better than anticipated. The negative factors, however, include the fairly high inflationary pressure, which is why we still assume there will be another rate hike. But given the sound economic developments this should not have any adverse impact on the further performance of the index. ***BUY***.

The ***Czech PX*** has had to swallow price losses of roughly 2% since the start of the second quarter, bringing it in the middle of its peers Poland and Hungary. However, in contrast to its neighbouring countries, the financial sector in the Czech Republic (weighted 27% in the index) has suffered in line with the international developments of the sector (-5.2%). All told, we expect just a gentle upward movement for the PX, which is also attributable to 2011e earnings growth that looks rather weak at roughly four percent. Nevertheless, the fundamentals are in order. Economic activity is set to improve noticeably in the

Region's core indices



In local currency
Source: Thomson Reuters, Raiffeisen RESEARCH

Indices in performance comparison

	2006	2007	2008	2009	2010	21-Jun*
ATX	21.7%	1.1%	-61.2%	42.5%	16.4%	-6.0%
BUX	19.5%	5.6%	-53.3%	73.4%	0.5%	5.4%
WIG 20	23.7%	5.2%	-48.2%	33.5%	14.9%	3.4%
PX	7.9%	14.2%	-52.7%	30.2%	9.6%	0.4%
MICEX	67.5%	11.5%	-67.2%	121.1%	23.2%	-3.1%
BET	22.2%	22.1%	-70.5%	61.7%	12.3%	5.8%
CROBEX	60.7%	62.3%	-66.9%	16.4%	5.3%	6.3%
BELEX 15	58.0%	38.4%	-75.6%	17.4%	-1.8%	16.9%
SASX-10	79.0%	28.5%	-66.5%	-14.6%	-10.4%	6.4%
CECE Comp. Index	14.7%	10.5%	-53.7%	40.5%	15.7%	4.7%
DAX	22.0%	22.3%	-40.4%	23.8%	16.1%	5.4%
Euro Stoxx 50	15.1%	6.8%	-44.4%	21.1%	-5.8%	0.3%
S&P 500	13.6%	3.5%	-38.5%	23.5%	12.8%	3.0%
MSCI World	13.5%	2.8%	-40.1%	22.8%	7.8%	-0.5%

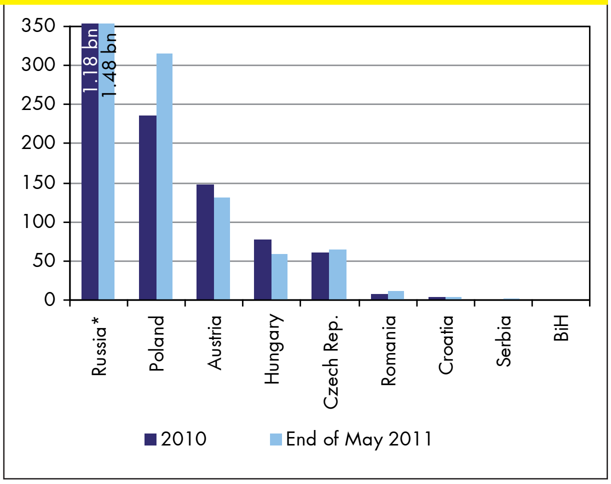
** ytd; 23:59 p.m. (CET)*
Source: Bloomberg, Thomson Reuters, Raiffeisen RESEARCH

Stock market indicators

	Long-term growth	Earnings growth			Price/earnings ratio			Dividend yield
		2010	2011e	2012f	2010	2011e	2012f	11e
ATX	7.5%	23.0%	31.8%	20.9%	15.4	12.0	9.9	3.4%
WIG 20*	10.7%	29.2%	19.5%	5.0%	13.2	11.0	10.5	4.1%
BUX	8.2%	6.9%	13.1%	11.3%	11.2	9.9	8.9	3.7%
PX**	6.7%	45.4%	3.8%	4.6%	12.0	11.6	11.1	6.0%
MICEX***	12.2%	52.0%	27.4%	6.5%	8.4	6.6	6.2	2.3%
BET****	11.5%	14.2%	13.4%	20.0%	11.9	10.5	8.8	3.1%
CROBEX10	9.8%	30.4%	41.0%	17.4%	13.3	9.4	8.0	3.3%
BELEX15*****	6.9%	6.3%	7.7%	8.3%	8.2	7.6	7.0	1.2%
SASX-10	7.5%	-31.3%	16.2%	20.4%	19.9	17.1	14.2	3.6%

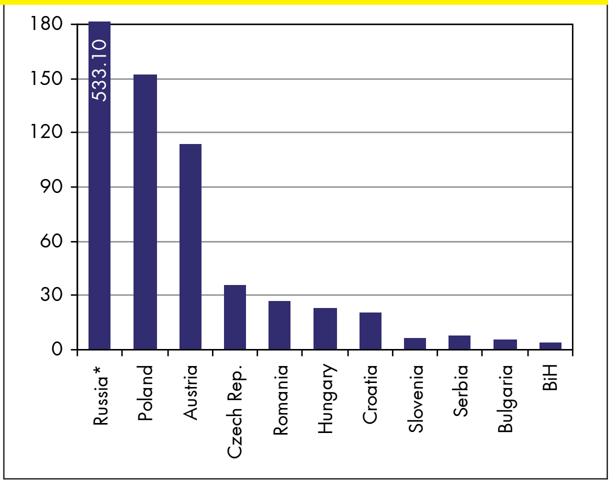
** Poland (WIG 20): excl. CEZ and PZU; ** Czech Rep. (PX): excl. Erste Group and Vienna Insurance Group; *** Russia (MICEX): excl. Inter RAO, Sberbank Pref. and Surgutneftegaz Pref.; **** Romania (BET): excl. BVB and SSIF Broker; ***** Serbia (BELEX15): excl. Alfa Plam, Aerodrom, Imlek, Jubmes Banka, NIS, Tigar and Veterinarski*
Source: Thomson Reuters, IBES, Bloomberg, Raiffeisen RESEARCH

Avg. daily turnover in EUR mn



* Russian data based solely on MICEX
Source: FESE, FEAS, MICEX, Raiffeisen RESEARCH

Market capitalisation overview



* Russian data based solely on MICEX
In EUR bn; end of May 2011
Source: FESE, FEAS, MICEX, Raiffeisen RESEARCH

second half of the year: P/E 2011e is still moderate at 11.6, while the main argument in favour of the essentially defensive PX is the traditionally high dividend yield of 6.0%. ***BUY***.

The performance of the ***Hungarian BUX*** index was quite the same as of the established stock indices in the west. While the results published by the constituent companies were a mixed bag, the macroeconomic situation does appear to making slow but sure progress. However, the dependency on the EU is still rather marked since the growth in GDP (2011 estimate: 2.5% after 1.2% in the previous year) is attributable almost exclusively to exports. Nonetheless we need to wait for the implementation of the package of structural reforms, which has only been announced so far. Aggregate earnings growth estimated for 2011 at 13.1% produces a relatively benign P/E of 9.9. This should be supportive for the equities market, even though the lack of local impulses means that the main influencing factor – international sentiment – is likely to remain a problem in view of the Greek issues. ***BUY***.

Fiscal policy measures taken in ***Romania*** are already having an effect in the form of higher tax receipts and lower public spending, and are therefore contributing to an increase of confidence from international investors – coupled with an albeit cautious but definite economic recovery. The progress made was also recognised by an IMF mission, and this creates encouraging framework conditions for positive developments on the ***Bucharest Stock Exchange*** over the coming three months. Once an agreement is reached on additional aid for Greece we look forward to an altogether positive performance by the ***BET index*** over the summer months. Fundamentally speaking

Index estimates

	21-Jun*	Sep-11	Dec-11	Mar-12	Jun-12	Recommendation
ATX	2731	2850	3000	3050	2850	***HOLD***
Performance		4.4%	9.8%	11.7%	4.4%	since 1/1/10
Range		2600-3100	2600-3100	2800-3500	2700-3500	-6.0%
WIG 20	2837	3030	3100	3200	2930	***BUY***
Performance		6.8%	9.3%	12.8%	3.3%	since 1/1/10
Range		2650-3150	2900-3250	3000-3350	2800-3300	3.4%
BUX	22483	24200	25000	25500	23200	***BUY***
Performance		7.6%	11.2%	13.4%	3.2%	since 1/1/10
Range		21000-25500	23000-26500	22500-26000	22000-26500	5.4%
PX	1230	1300	1325	1350	1270	***BUY***
Performance		5.7%	7.7%	9.8%	3.3%	since 1/1/10
Range		1100-1400	1150-1450	1150-1450	1100-1400	0.4%

In local currency
** 23:59 p.m. (CET)*
Source: Thomson Reuters, Raiffeisen RESEARCH

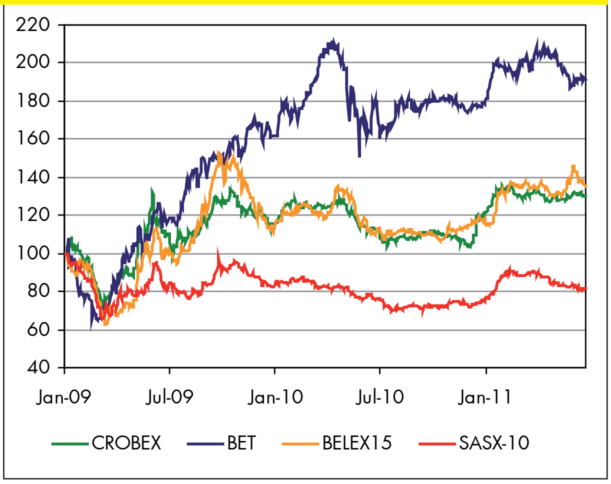
the constituent stocks in the BET are favourably valued. With a moderate P/E ratio of 10.5 based on the corporate earnings expected for 2011 (+13.4% compared to 2010) the ***BET*** has nothing to be shy about by regional and international comparison. ***BUY***.

After the accession negotiations are finalised the performance of the ***Zagreb Stock Exchange*** in the coming quarters will be dominated by possible EU accession, which could take place by mid-2013. As happened with previous candidate countries, this would exert a favourable impact on the local equities market well in advance. The still moderate valuation will also offer some added support.Especially thanks to the index heavyweight INA, the estimated corporate earnings growth for 2011 (aggregated on index basis) is +41%, which leads to an attractive P/E ratio of 9.4. ***BUY***.

The performances of the ***stock exchanges*** in ***Belgrade*** and ***Sarajevo*** varied strongly in the last quarter. While the Serbian BELEX15 stayed in the black thanks to the new addition of energy supplier NIS (+48%) to the index, Bosnian stocks were subject to a sell-off. Serbia could achieve candidate status this year, and exhibits a very favourable valuation. ***BUY***.

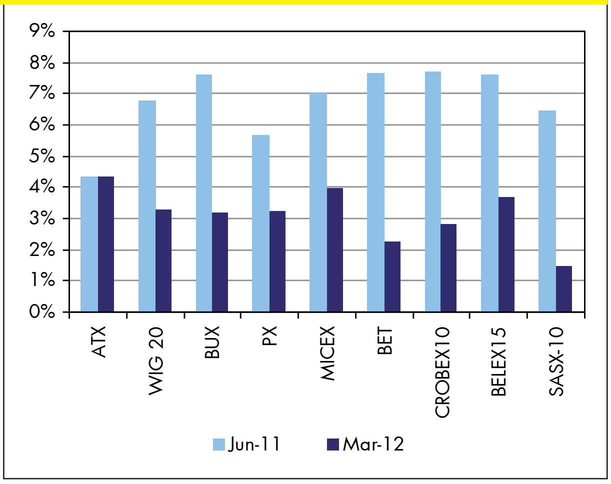
Andreas Schiller, Aaron Alber

SEE indices in comparison



Source: Bloomberg, Raiffeisen RESEARCH

Expected index performance



Source: Raiffeisen RESEARCH

Index estimates

	21-Jun*	Sep-11	Dec-11	Mar-12	Jun-12	Recommendation
MICEX	1635	1750	1800	1850	1700	***BUY***
Performance		7.0%	10.1%	13.1%	4.0%	since 1/1/10
Range		1500-2000	1600-2100	1700-2200	1500-2000	-3.1%
BET	5574	6000	6200	6300	5700	***BUY***
Performance		7.6%	11.2%	13.0%	2.3%	since 1/1/10
Range		5200-6500	5800-6700	5800-6800	5200-6600	5.8%
CROBEX10	1216	1310	1350	1380	1250	***BUY***
Performance		7.7%	11.0%	13.5%	2.8%	since 1/1/10
Range		1100-1500	1200-1600	1200-1650	1100-1500	5.3%
BELEX15	762	820	850	880	790	***BUY***
Performance		7.6%	11.5%	15.5%	3.7%	since 1/1/10
Range		680-900	700-950	750-980	700-950	16.9%
SASX-10	1005	1070	1100	1120	1020	***BUY***
Performance		6.5%	9.5%	11.4%	1.5%	since 1/1/10
Range		900-1200	1000-1200	1000-1250	900-1200	6.5%

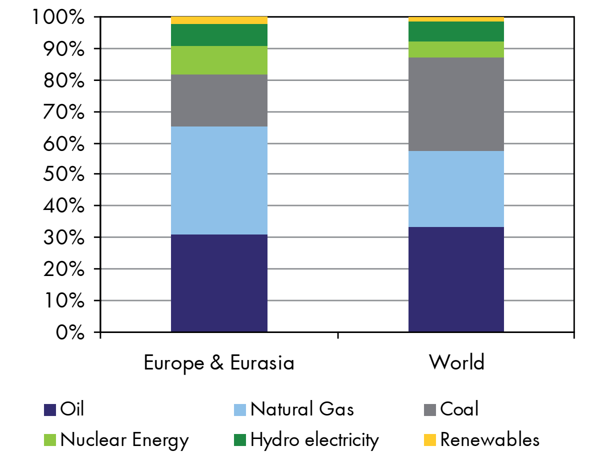
In local currency
** 23:59 p.m. (CET)*
Source: Thomson Reuters, Raiffeisen RESEARCH

Oil & Gas

Say good-bye to two-digit oil prices

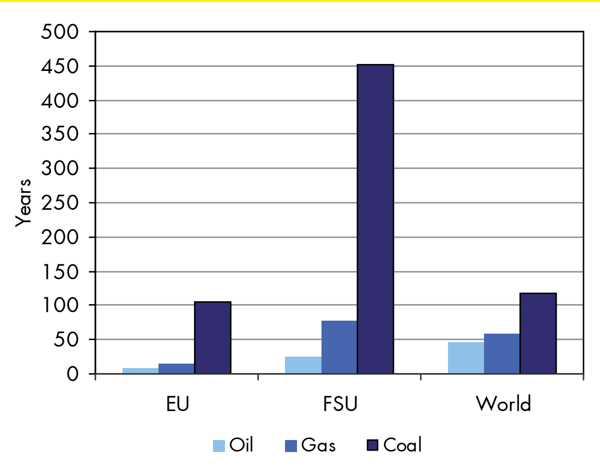
- **E&P remains profitable, R&M under pressure**
- **European power generation will demand more gas**
- **We thus favour integrated gas players**

2010 Energy consumption per fuel



Source: BP Statistical Review of World Energy 2011

Reserves-to-production ratios 2010



Source: BP Statistical Review of World Energy 2011

Growing emerging market demand, the political crisis in the MENA region and rising production costs are the reasons why we see the future oil price beyond USD 100/bbl only. E&P will be able to hand on rising production costs driven by reserve complexity and sophisticated extraction technologies (directional drilling, hydraulic fracturing). Downstream, however, profitability will remain under pressure in our view, given rising raw material cost and stagnating product demand in CEE. Refiners will try to produce more products with higher value-added (such as specialty petrochemicals and sulphur-free fuel) and to improve downstream logistics so as to expand and diversify the market. However, as both of these options are limited, most refiners will resort to minimizing costs by integrating power generation and eliminating redundant production capacity. In reaction to persisting high oil prices, the caloric usage of oil for heating and power generation will be the first to be substituted in our view, mostly by gas. We see the transport sector having fewer options to wean itself from its oil dependence, but it will try to improve consumption efficiency and use alternatives (biofuels, LPG, coal-to-liquids). Nevertheless, we believe that oil will remain the main source of energy for this segment.

We are convinced that the primary source of power generation in Europe will gradually shift from coal, oil and nuclear to natural gas. Thus, Europe will be forced to find new ways to procure sufficient gas supplies. There will be more than one solution to this problem: gas imports via new pipelines and via LNG shipments, and possibly also shale gas.

Consequently, in our universe, we favour the integrated and gas-biased players OMV, Petrom, MOL, and Gazprom.

Philipp Chladek

Sector comparison

	Recommendation	Target price	P/E		EV/Sales		EV/EBITDA	
			2011e	2012f	2011e	2012f	2011e	2012f
Gazprom	Buy	RUB 257.0	4.8	4.4	1.4	1.2	3.5	3.1
INA	Sell	HRK 3,095	9.4	7.5	1.6	1.3	6.4	5.0
Lotos	Hold	PLN 47.00	9.9	7.7	0.6	0.5	7.4	6.3
LUKoil	Buy	RUB 2,636	4.5	4.9	0.4	0.4	2.9	3.0
MOL	Buy	HUF 28,830	8.9	7.1	0.6	0.6	5.0	4.1
OMV	Buy	EUR 36.00	6.5	5.8	0.4	0.4	2.8	2.7
Petrol	Hold	EUR 270.0	9.4	9.5	0.3	0.3	8.6	8.4
Petrom	Buy	RON 0.480	7.7	6.9	1.2	1.0	3.9	3.6
PKN	Hold	PLN 60.00	10.9	10.7	0.4	0.4	7.1	6.6
Rosneft	Hold	RUB 268.0	8.4	9.6	1.3	1.2	5.1	5.2
Tatneft	Buy	RUB 199.0	6.2	5.4	0.8	0.8	4.8	4.2
Unipetrol	Hold	CZK 200.0	24.9	16.4	0.3	0.3	5.4	4.5

Source: Raiffeisen Centrobank estimates

Utilities

Eastern Europe is shining

- **Utilities beat the market in CEE**
- **Germany's nuclear exit will now definitely take place earlier**
- **Buy recommendation: CEZ**

While Western European utilities have been trending downwards along with the market, led by the two large German utility groups E.ON and RWE which are suffering severe blows due to Germany's early nuclear exit, the situation in Eastern Europe is just the opposite: corporate results brought positive surprises across the board in Q1 and, in stark contrast to the past, the market is buying into the positive sentiment.

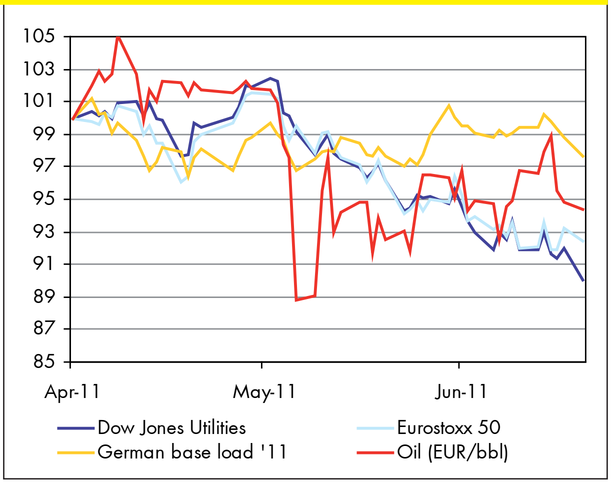
Polish utilities stand out in particular even though electricity prices have not strengthened and gas price trends are pointing towards a deterioration of results. In addition, the M&A carousel is turning again: after expiry of a lock-up period, PGE could be privatized further, there should be another attempt to sell Enea and in Warsaw the sale of companies in the heating generation and distribution business could be a done deal soon. Also Austrian utilities have taken action again: Verbund has sold a minority stake in its Bavarian run-of-river power plants to EVN and WienEnergie and could undertake further transactions: distribution companies are currently on offer again in Turkey (also by CEZ), the Italian partners of Verbund are trying to sell their stake and one investment is still on the market also in Austria.

One outcome of Germany's new nuclear policy appears to be increased state intervention and regulation. The main concern is security of supply which can, however, at times only be maintained at the shareholders' expense.

Following the rally of Polish utilities we see no buying opportunity there at present. The results of Verbund are likely to suffer due to the dry early summer and we currently see only limited upside for EVN as well. Therefore CEZ is our only "buy" recommendation at the moment.

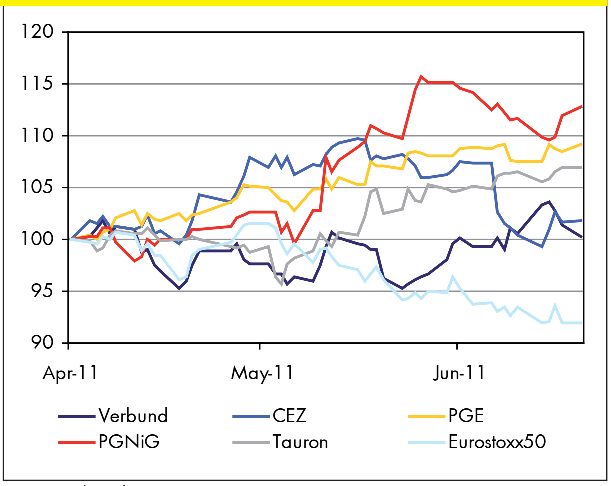
Teresa Schinwald

Utilities vs. Markets vs. Energy



Source: Bloomberg

CEE utilities outperform



Source: Bloomberg

Sector comparison

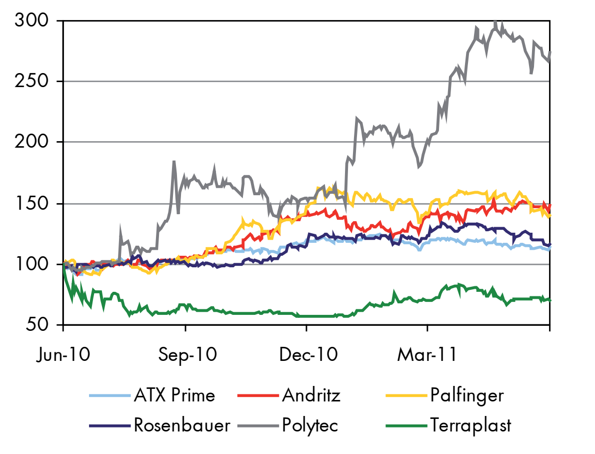
Company	Recommendation	Target price	P/E 2011e	P/E 2012f	EV/EBITDA 2011e	EV/EBITDA 2012f	Dividend yield 2011e	Dividend yield 2012f
CEZ	Buy	CZK 1,050	11.2	11.0	6.6	6.4	5.3%	5.4%
EVN	Hold	EUR 13.50	11.6	10.6	3.2	2.8	3.6%	3.6%
PGE	Hold	PLN 25.00	11.0	9.5	5.3	4.7	4.1%	4.7%
PGNiG	Hold	PLN 4.20	16.3	16.8	7.7	7.5	2.4%	2.4%
Tauron	Hold	PLN 7.20	10.9	10.0	4.6	4.2	2.7%	3.0%
Transelectrica	Hold	UR	10.8	10.5	5.5	4.8	4.7%	4.9%
Transgaz	Hold	RON 285.00	17.3	12.8	7.6	6.3	4.0%	5.1%
Verbund	Hold	EUR 35.00	24.0	16.0	11.4	8.8	2.0%	3.0%

UR = under revision   Source: Raiffeisen Centrobank estimates

Industrials
2011 already in the books

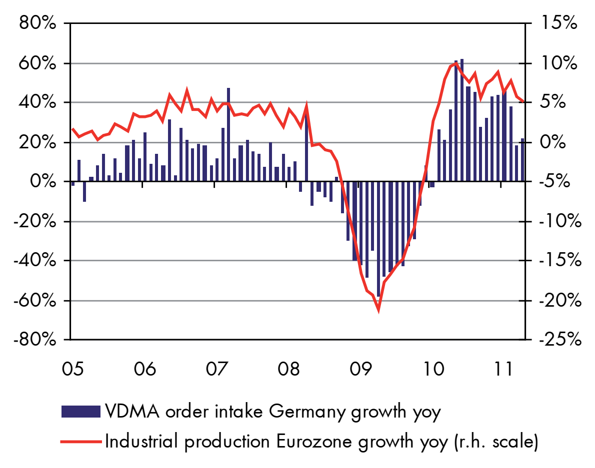
- **Solid order backlogs providing good visibility for FY 11e**
- **Leading order intake indicators trending slightly down**
- **Our sector pick: Rosenbauer**

Share price development



Source: Bloomberg

Order Intake and Industrial production



Source: VDMA, Bloomberg

Through FY 10, in-line with major economic indicators and overall industry sentiment, we have seen a gradual recovery of the industrial sector as shown by increasing order intake figures. So the overall picture, especially in the plant construction business, is still positive, despite recent market fears following political and fiscal tensions in Europe.

Andritz continues to see solid project activity for hydropower equipment in Europe and the US, mostly stemming from modernizations and upgrades of existing power plants. Also the greenfield project pipeline in the pulp industry is quite promising, providing good throughout FY 11e. We also expect a revision of the previous company guidance for FY13/14e, given at last year's capital market's day, in the mid-term, as, based on market consensus, Andritz is expected to overshoot those figures already in FY 12e. Also, Andritz, being exposed to less cyclical end-markets through its Hydro business, is expected to suffer less than the overall sector from any potential downswing ahead.

Rosenbauer, being a very late cyclical company as municipal budgets tend to adjust with a time lag of roughly 2 years to fiscal swings, expects those budgetary restraints upon local municipalities, mainly in Europe and the US, to somewhat leave a mark in it's FY 11e results. However, owing to emerging markets holding up nicely as well as the quickly growing vehicle output at the Russian joint-venture production site, we forecast only a minor yoy top line decline of roughly 2.4% as well as an operating margin contraction to around 7.5% resulting in our current 12-month target price of EUR 45.00.

We reiterate our long-term positive view on Andritz, however sticking to our current "hold" recommendation due to a lack of upside to current market levels. In the light of the recent share price weakness of Rosenbauer, we confirm our "buy" recommendation on the back of a 25% upside to current market levels.

Bernhard Selinger

Sector comparison

Company	Recommendation	Target price	P/E 2011e	P/E 2012f	Dividend yield 2011e	Dividend yield 2012f	EV/EBITDA 2011e	EV/EBITDA 2012f
Andritz	Hold	EUR 72.00	18.0	15.9	2.8%	3.2%	6.9	6.2
Palfinger	Buy	EUR 32.00	15.6	11.5	2.0%	2.7%	9.3	7.3
Rosenbauer	Buy	EUR 45.00	10.3	10.8	2.2%	2.4%	6.3	6.1
Polytec	Buy	EUR 9.50	5.6	5.8	3.8%	4.5%	2.8	2.5
Teraplast	UR	UR	9.5	7.7	0.0%	0.0%	6.3	5.2

UR = under revision   Source: Raiffeisen Centrobank estimates

Banks

Volatility to persist over the summer months

- **Basel III/Stress test/ EUR sovereigns to drive the volatility on the banking stocks**
- **Erste, Millennium, NKBM have reached attractive valuations**
- **Erste, OTP, PKO, NKBM remain our "buy" calls**

While there is approx. one month left to the Q2 reporting season, it is more than enough time for stocks to weigh on Greece related news-flow and therefore we would not advise on any fundamental trading ideas at this point of time. Within our universe Komercni Banka and Erste Group have the highest but still limited sovereign exposure towards Greece and other Euro-peripheral countries (KB: 8% of shareholders equity, Erste: 6%). Polish banks and OTP said to have "almost zero" exposure towards the above mentioned countries.

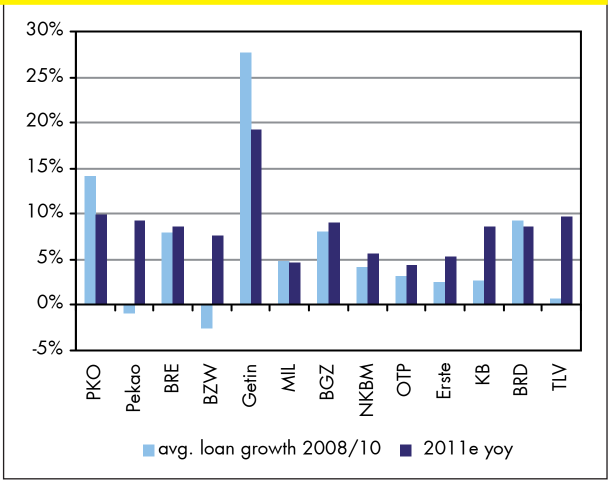
What we can say is that some stocks in our universe seem to have been oversold already: NKBM, Bank Millennium (9% underperforming WIGBanks), Erste and to some extent Komercni. In our universe we speculate that those could reverse back during Q3. The Polish WIGBank Index has outperformed MSCI Europe Banks by ~8%, Erste and Komercni by 5% but remained 6% below OTP.

The results of 2011 stress tests should be released in the course of July 2011 but we do not expect any big surprises as all our banks – also NKBM after the recent EUR 100 mn capital increase – look quite safe to reach the 6% Core Tier 1 ratio threshold. The very recent Basel III Committee decision to put an additional SIFI buffer of 2.5% on the top of the new capital requirements only for globally systemic relevant banks, should not have any direct impact on the stocks in our universe.

Apart from the Q2 earnings season, we point out some company relevant news-flow: 1) Erste's decision to pay back state capital, 2) the size of PKO BP's share sale, 3) NKBM's decision on possible takeovers in Slovenia and/or Serbia and 4) more details on the coming consolidation of Allianz Bank Polska into Getin Holding group.

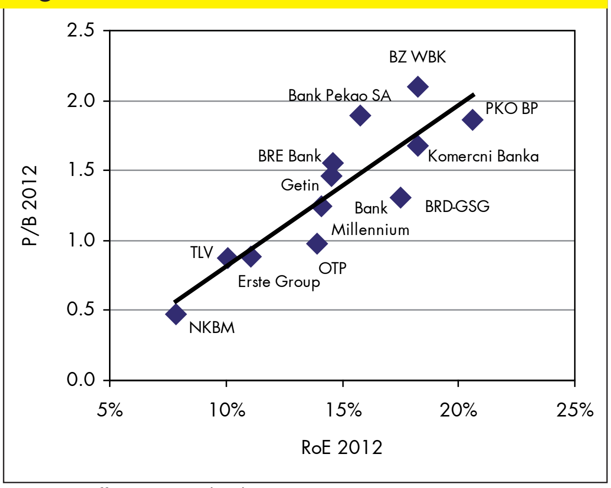
Stefan Maxian, Jovan Sikimic

Loan growth outlook



Source: Company data, Raiffeisen Centrobank estimates

Regression P/B 2012 - RoE 2012



Source: Raiffeisen Centrobank estimates

Sector comparison

Company	Recommendation	Target price	P/E 2011e	P/E 2012f	PBV 2011e	PBV 2012f	Dividend yield 2011e	Dividend yield 2012f
Erste Group	Buy	UR	12.1	8.9	1.0	0.9	2.3%	2.9%
OTP	Buy	HUF 7,320	9.0	7.4	1.1	1.0	7.3%	8.8%
PKO BP	Buy	PLN 50.50	12.6	9.9	2.2	1.9	3.6%	4.5%
BZ WBK	Reduce	PLN 221.0	14.2	11.8	2.3	2.0	3.5%	4.2%
Getin	Hold	PLN 15.30	8.4	10.7	1.7	1.5	0.0%	0.0%
Bank Pekao SA	Hold	PLN 182.0	14.7	13.0	2.1	2.0	5.1%	5.8%
BRE Bank	Reduce	PLN 338.0	14.4	11.3	1.8	1.6	1.0%	1.8%
Bank Millennium	Hold	UR	12.8	9.6	1.4	1.3	3.1%	4.7%
Bank BGZ	Hold	PLN 62.00	15.6	12.5	1.0	0.9	0.0%	0.0%
BRD-GSG	Buy	RON 16.60	10.0	8.0	1.5	1.3	3.0%	5.2%
Banca Transilvania	Hold	RON 1.40	16.0	9.1	1.0	0.9	0.0%	4.8%
NKBM	Buy	UR	8.6	6.5	0.5	0.5	3.2%	4.6%
Komercni Banka	Buy	UR	11.0	9.9	1.9	1.7	5.8%	6.3%

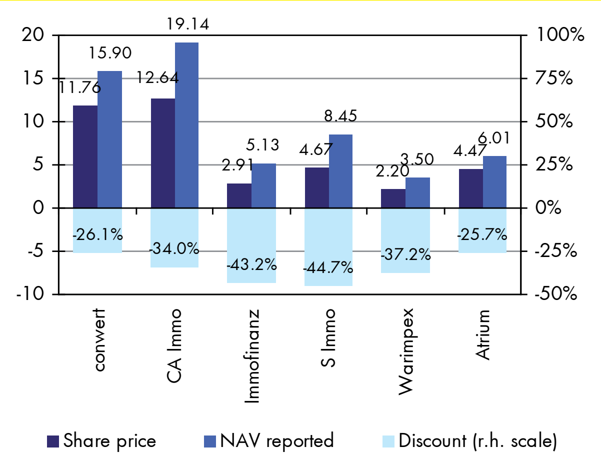
UR = under revision   Source: Raiffeisen Centrobank estimates

Real Estate

Solid reward/risk profile

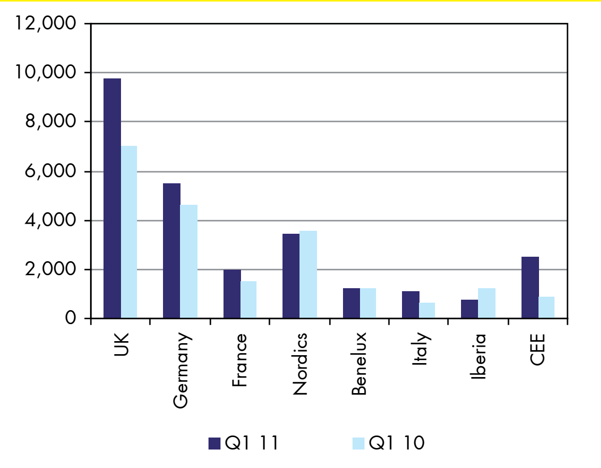
- *First signs of investment activity spreading in CEE/SEE*
- *Austrian property stocks continue to trade with a substantial P/NAV discount*
- *convert, Immofinanz and GTC top-picks*

Valuation Austrian property companies



The indicated price is the last price as available at 6.30 AM (CET) on 22 June 2011
Source: Company data

European real estate investment market



Source: CBRE

A recent CBRE market report indicates a spreading investment activity in the CEE region. While Russia, Poland and the Czech Republic continue to dominate the transaction market, first signs of an increased liquidity are becoming visible in Slovakia, Hungary as well as Romania. Investors continue to pursue risk-averse strategies and consequently focus on prime assets. Given fierce competition for prime assets in many core markets, still sluggish markets with higher risk and lower liquidity should see a higher level of investment activity in the near future given their price advantage. Cross-border investment is on the rise again. On a European level, UK and Germany play the major role on the property investment market.

Austrian property stocks continue to trade with significant discounts to their reported net asset values. They seem to be negatively affected by a continuing unfavourable sentiment due to former corporate governance and transparency problems as a result of which the market still appears to be lumping the entire Austrian real estate universe together. Substantial losses driven by massive property write-downs during the financial crisis seem to have led to some sort of scepticism among investors with regard to the appraisal of properties in the CEE/SEE region, in particular on markets with lower liquidity. After a period of high growth and consolidation, the companies focus on optimising their portfolios and streamlining their internal structures in order to achieve higher organic growth. On the back of recovering CEE and SEE markets and consequently improving operations, we keep our positive view on the Austrian real estate sector and believe that the discounts currently applied by the market are too high. The solid German economy has a positive impact on connected economies such as Austria and Poland and drives the country's property market, one of the core markets of Austrian real estate companies. We currently favour conwert, Immofinanz and the Polish GTC in our coverage universe.

Christoph Thurnberger

Sector comparison

Company	Recommendation	Target price	P/E 2011e	P/E 2012f	P/BV 2011e	P/BV 2012f	Dividend yield 2011e	Dividend yield 2012f
CA Immobilien	Hold	EUR 14.10	15.1	22.0	0.7	0.7	2.9%	2.9%
conwert	Buy	EUR 14.00	19.0	17.9	0.7	0.7	3.0%	3.0%
Echo Investment	Hold	PLN 5.60	8.3	6.5	1.0	0.9	0.0%	0.0%
Globe Trade Centre	Buy	PLN 25.60	6.8	7.6	0.9	0.8	0.0%	0.0%
Immofinanz	Buy	EUR 4.00	87.2	72.7	0.5	0.5	4.1%	4.1%
Polnord	Buy	PLN 42.30	275.9	6.3	0.5	0.5	0.0%	0.0%
Warimpex	Buy	EUR 3.32	109.5	23.3	1.3	1.2	0.0%	0.0%

Source: Raiffeisen Centrobank estimates

Telecommunication
Q1 2011 results were weak

- *Top pick: Magyar Telekom*
- *M&A activity on the Polish market*
- *Better performance to come in H2 11?*

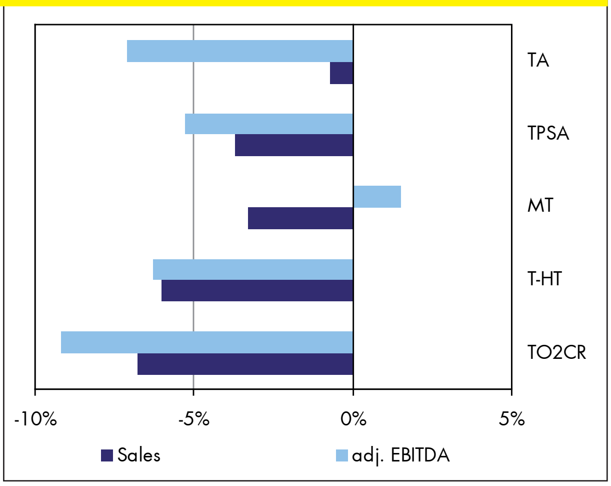
CEE incumbents have published their results for Q1 2011. Key sets of figures were weak and in some of the cases slightly below expectations. Top line declines ranged from -6.8% yoy (Telefonica O2CR) to -0.7% yoy (Telekom Austria) while growth rates in adjusted EBITDA were between -9.2% yoy (TO2CR) and 1.5% yoy (MT) in Q1 2011. Fixed line revenues have been negatively influenced by ongoing fixed-to-mobile substitution, which has not been offset by a moderate growth in Internet revenues. CEE mobile revenues were under pressure due to gradual MTR cuts. The only exception was TPSA's mobile revenues. Sales of smartphones have been picking up and have represented more than 30% of handset sales. Despite the companies focus on the operating costs efficiency, EBITDA margins eroded in most of the cases in Q1 11.

Consolidation and M&A activity on the telecommunication market has continued in Poland (e.g. Polkomtel, Dialog, Exatel expected sale). PTC has been rebranded to T-Mobile (from Era). For the second half we expect CEE operators to improve their performance. This should be driven by a hopefully improving economic environment (e.g. lower unemployment rates) and broadband rollout based on VDSL technology by TPSA and TO2CR, which should be more competitive compared to cable operators. We expect most of the operators to turn around their top line declines next year. In the meantime, the expected dividend yields of around 8.5% remain attractive and limit the downside potential of the covered stocks.

There is a risk that the Russian mobile operators will be forced to introduce per-second billing, which we would see moderately negative for both MTS and Vimpelcom. The issue is currently considered by the Ministry of Telecommunications. On the other hand, higher traffic usage or potentially higher tariffs could at least partially offset the new billing system if indeed introduced.

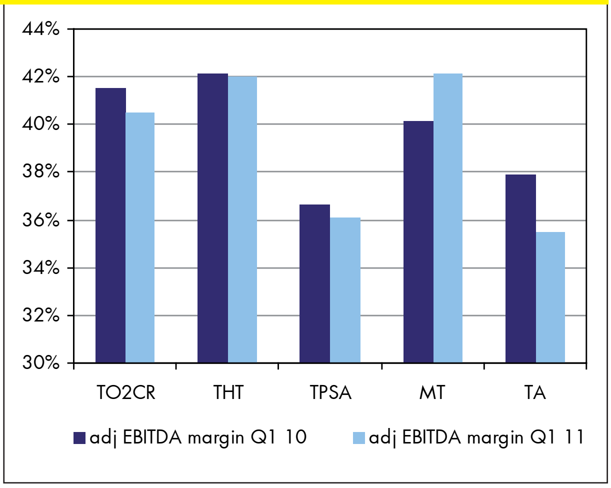
Jindrich Svatek

Sales and EBITDA growth rates Q1 yoy



Source: Company data

EBITDA Margin comparison



Source: Company data, Raiffeisen Centrobank

Sector comparison

Company	Recommendation	Target price	P/E		Dividend yield		EV/EBITDA	
			2011e	2012f	2011e	2012f	2011e	2012f
Telekom Austria	Hold	EUR 10.20	51.8	13.2	8.7%	8.7%	6.0	5.0
Hrvatski Telekom	Hold	HRK 282.0	11.9	11.6	8.6%	8.6%	4.8	4.7
TPSA	UR	UR	16.1	13.8	8.7%	8.7%	5.0	4.7
Telefonica O2 CR	Hold	CZK 420.0	15.6	14.8	9.3%	9.3%	6.0	6.1
Magyar Telekom	Buy	HUF 668.0	12.8	12.8	8.6%	8.6%	4.6	4.7
Netia	Buy	PLN 6.30	87.5	19.0	0.0%	4.2%	4.4	3.7
VimpelCom Ltd	Buy	USD 18.00	9.8	9.3	4.6%	5.5%	4.6	4.2
MTS	Buy	USD 25.60	9.4	9.9	6.3%	6.1%	4.5	4.4

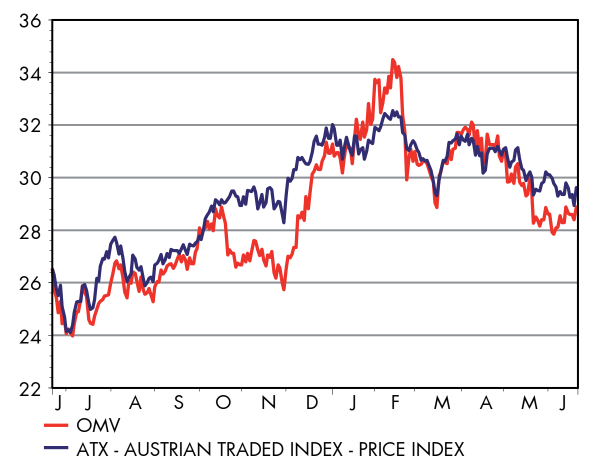
UR = under revision *Source: Raiffeisen Centrobank estimates*

OMV

E&P for profits, G&P for growth

- **_Recommendation: Buy_**
- **_Current share price: EUR 28.89*/ Target price: EUR 36.00_**
- **_Market capitalisation: EUR 8,632 mn_**

OMV



Source: Thomson Reuters

Income statement & balance sheet (IFRS)

EUR mn	2010	2011e	2012f	2013f
Income Statement				
Consolidated sales	23,323	33,628	36,194	38,672
EBITDA	3,905	5,086	5,350	5,589
EBIT	2,333	3,105	3,521	3,724
EBT	1,960	2,648	3,143	3,322
Net profit b.m.	1,214	1,760	2,059	2,159
Net profit a.m.	920	1,381	1,627	1,729
Balance sheet				
Total assets	26,405	29,290	30,864	32,671
Shareholders' equity	9,080	10,887	12,081	13,324
Goodwill	1,137	1,137	1,137	1,137
NIBD	4,564	3,565	3,349	2,937

Source: OMV, Raiffeisen Centrobank estimates

Key ratios

	2010	2011e	2012f	2013f
EPS	3.08	4.42	4.97	5.28
PER	10.1	6.5	5.8	5.5
Operat.CF per share	9.66	10.97	10.59	11.37
Price cash flow	3.2	2.6	2.7	2.5
Book value per share	30.39	33.39	37.05	40.86
Price book value	1.0	0.9	0.8	0.7
Dividend yield	3.2%	4.6%	5.2%	5.5%
ROE	10.7%	13.8%	14.2%	13.6%
ROCE	9.3%	11.5%	11.4%	11.0%
EV/EBITDA	3.6	2.8	2.7	2.2

Source: OMV, Raiffeisen Centrobank estimates

By placing a EUR 750 mn capital increase and a hybrid bond of equal amount, OMV rectified its capital structure after several debt-funded acquisitions (Petrol Ofisi and Tunisian oil fields). As a next step, newly-appointed CEO Roiss will present the group's new strategy in Istanbul in September.

We expect that the company will try to create value by applying its extensive exploration experience in existing and newly acquired fields. Most of the oil and gas production comes out of declining mature assets, thus the group needs to expand its portfolio via acquisitions in order to maintain its production rate. While doing so, emphasis will be put on integration, i.e. refineries and future power plants will use as much own oil and gas as possible. The strategic core areas for OMV's E&P operations are the North Sea, the Danube Region, Northern Africa, the Middle East, the Caspian region and Oceania.

The acquisition of the Turkish retailer Petrol Ofisi is an element of the company's aspiration to vertically expand in the growing Turkish market. Thus, the company will intensify power generation, gas trading and logistics and limited E&P operations in the country.

After the last modernization drive of OMV's refining assets, the group's priority for its downstream operations is to save costs by integration. In retail, emphasis is put on further expansion in SEE growth markets. We favour OMV, because of its well-diversified upstream portfolio, of which 60% produces natural gas, securing a stable profitability. Additionally, the group's gas and power operations provide the largest growth potential. Already now, the group is handling 1/3 of all Russian gas imported into the EU, and with the construction of the planned additional gas pipelines in SEE, this importance is set to increase. We rate OMV a "buy" with a price target of EUR 36.00.

Philipp Chladek

** the indicated price is the last price as available at 6.30 AM (CET) on 22 June 2011*

Conwert

A defensive play with upside

As inflation remains a major topic among investors, conwert might be perceived as a good hedge against it given the company's focus on high quality and well located residential properties in Austria and Germany with rental contracts linked to inflation by indexation clauses. The ECB is slow to increase rates taking into consideration the detrimental effect it would have on European peripheries. This is an ideal scenario for conwert's portfolio and core products. Conwert's fixed-rate financial liabilities (accounting for a majority of 85% including hedging) dampen the effect of rising interest rates on funding costs.

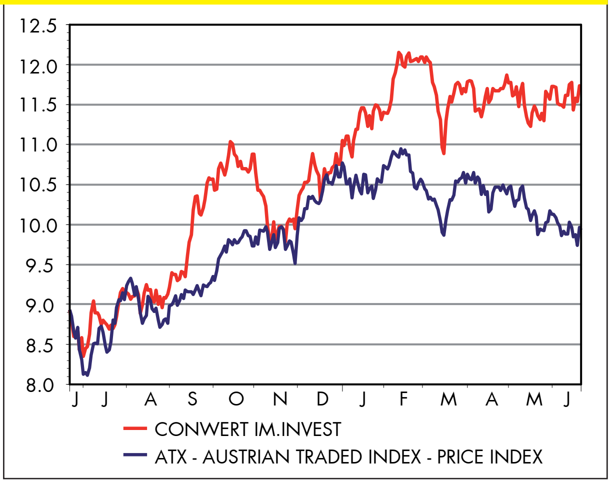
In addition, the company's extended and large-scale share buy-back program is nicely contributing to share price stability. Up to 10% of share capital may be repurchased over the market until 30 June, 2012, 2.7% of the nominal share capital was repurchased to date. conwert's main shareholder Petrus Advisors is also seeking to increase its stake in the company, they have recently surpassed the 20% mark. Overall, the buy-back programme and Petrus Advisors provide substantial technical support to the share price - it was clearly visible that conwert was one of the few ATX stocks in green on poor days of the broad market recently, as these buyers have remained active on a continuous basis.

conwert's defensive and less cyclical portfolio and business model makes it an interesting play in the current volatile market environment characterised by high uncertainties. Improving property indicators, in particular driven by strong German fundamentals along with a stronger operational performance (increasing yields on the back of rental income growth and decreasing vacancy), do not justify the current market valuation which translates into a current P/NAV discount of approx. 27% in our view. The share price seems to be negatively affected by a continuing unfavourable sentiment due to former corporate governance and transparency problems as a result of which the market still seems to be lumping the entire Austrian real estate universe together. We expect the trading discount to diminish over time and the stock to converge towards its reported NAV at EUR 15.90.

Christoph Thurnberger

- ***Recommendation: Buy***
- ***Current share price: EUR 11.74*/ Target price: EUR 14.00***
- ***Market capitalisation: EUR 1,008 mn***

Conwert



Source: Thomson Reuters

Income statement & balance sheet (IFRS)

EUR mn	2010	2011e	2012f	2013f
Income Statement				
Consolidated sales	222	249	236	231
EBITDA	185	162	151	145
EBIT	103	152	142	136
EBT	30	71	75	77
Net profit b.m.	26	57	60	62
Net profit a.m.	24	55	58	60
Balance sheet				
Total assets	3,551	3,360	3,086	2,968
Shareholders' equity	1,379	1,407	1,436	1,465
Goodwill	125	125	125	125
NIBD	1,815	1,524	1,280	1,040

Source: Conwert, Raiffeisen Centrobank estimates

Key ratios

	2010	2011e	2012f	2013f
EPS	0.27	0.62	0.66	0.68
PER	40.1	19.0	17.9	17.4
Operat. CF per share	-0.13	-0.18	0.50	0.39
Price cash flow	-85.8	-66.1	23.5	30.1
Book value per share	16.06	16.39	16.72	17.07
Price book value	0.7	0.7	0.7	0.7
Dividend yield	2.8%	3.0%	3.0%	3.0%
ROE	1.8%	3.9%	4.1%	4.1%
ROCE	6.9%	3.9%	4.0%	4.1%
EV/EBITDA	12.4	13.8	14.4	14.4

Source: Conwert, Raiffeisen Centrobank estimates

** the indicated price is the last price as available at 6.30 AM (CET) on 22 June 2011*

Semperit

Fifth factory for gloves planned

- **Recommendation: Buy**
- **Current share price: EUR 36.55* / Target price: EUR 46.00**
- **Market capitalisation: EUR 752 mn**

Semperit

Source: Thomson Reuters

Income statement & balance sheet (IFRS)

EUR mn	2010	2011e	2012f	2013f
Income Statement				
Consolidated sales	689	812	883	962
EBITDA	112	121	141	154
EBIT	82	88	99	111
EBT	63	70	77	86
Net profit b.m.	45	50	55	62
Net profit a.m.	45	50	55	62
Balance sheet				
Total assets	593	633	670	697
Shareholders' equity	351	376	402	431
Goodwill	3	3	3	3
NIBD	-147	-138	-151	-168

Source: Semperit, Raiffeisen Centrobank estimates

Key ratios

	2010	2011e	2012f	2013f
EPS	2.21	2.44	2.69	3.01
PER	17.9	15.0	13.3	12.2
Operat. CF per share	3.23	3.90	5.31	5.66
Price cash flow	12.2	9.4	6.9	6.5
Book value per share	17.06	18.26	19.54	20.95
Price book value	2.3	2.0	1.9	1.7
Dividend yield	3.2%	3.8%	4.5%	4.8%
ROE	13.7%	13.8%	14.2%	14.8%
ROCE	11.2%	11.1%	11.5%	12.1%
EV/EBITDA	7.6	6.5	5.3	4.8

Source: Semperit, Raiffeisen Centrobank estimates

Reported Q1 figures from 10 May last month came in in-line with our expectations with the only exception of EBT which was reported above our estimates due to lower minorities resulting from a miss in earnings in Sempermed as delayed deliveries of gloves due to the flood in Thailand in Q4 2010 had to be priced on the lower material costs of Q4. Meanwhile, we had a meeting with CEO Thomas Fahnemann and the newly appointed CFO Dr. Johannes Schmidt-Schultes. The management laid out the new strategy of focusing primarily on Sempermed and Semperflex as these two divisions provide the best growth potential in Semperit's portfolio. Currently, Semperit is planning its fifth production facility (SSC 5) for gloves which should increase the overall capacity from expected 15.5 bn pieces at the end of this year to approx. 19 bn pieces – available at the beginning of 2013. Hence, for this new facility we raised estimates for 2013 to bring the company's overall revenues from EUR 926 mn to EUR 962 mn and EPS from EUR 2.95 to EUR 3.01. While we have raised our estimates for 2013 we have adopted a more cautious view concerning the current business year. Whereas natural rubber prices seem to have seen their highs but are stabilizing on still high levels we are concerned about the synthetic rubber prices. The price of Butadiene, which is the basic material for synthetic rubber, has increased further in recent months. While natural rubber somewhat trades at the same level as at year-end 2010, the price for Butadiene has increased by approx. 70%. We now come up with a reduced EBITDA margin assumption of 14.8% for 2011, after 16.3% in our last Company Update and lower EPS estimates for the current year from EUR 2.53 to EUR 2.44.

While currently synthetic rubber prices weigh on the profitability this negative effect should diminish in the course of time as Semperit is increasing its product prices, but yes, in the process of increasing commodity prices margins are under pressure. Overall, we leave our price target of EUR 46 per share unchanged.

Arno Supper

** the indicated price is the last price as available at 6.30 AM (CET) on 22 June 2011*

CEZ

Still a low-carb play

- **Recommendation: Buy**
- **Current share price: CZK 901.9*/ Target price: CZK 1,050**
- **Market capitalisation: EUR 19,864 mn**

As Q1 results met our, as well as consensus' elevated forecast based on FY EBITDA estimates of CZK 86 bn and beat bottom line expectations by quite some margin, we would reckon with a guidance increase in H2 2011. Also, conditions for CEZ improved actually over Q2 2011: short term power prices have been up since mid-March and additional readily available generation capacity from coal fired power plants should enable to reap some additional profits. Power plant data shows that even prolonged maintenance did not prevent its generation units from increasing output yoy. Thus, we consider the environment simply to good to justify such a drop as seen recently and would use current price levels for entering the stock.

CEZ's share price was on the retreat since mid May, even without being able to recover from going ex-dividend, a first time in years. The main reason for that was the announcement of the Czech government to allocate the 70% free CO_2 allowance only for power sold domestically (in line with EU regulation), whose 53-58% free allocation quota might have undershot some market participants expectations. However, the earnings and valuation effect is substantially smaller than the recent trough in the company's share price. CEZ will continue pursuing its divestment of Turkish affiliates, which has considerable book gain potential. There might be other divestments looming, and the new power market situation should prompt CEZ to review all abandoned generation projects. Still, we do not expect a lot of them to be revisited given the current thermal spread situation. Quit to the contrary, the still negative spark spreads would actually call for delays in ongoing projects. With free cash flow metrics barely unchanged, exposure to strong German price both on the short- as well as the long-term, and still a substantial free allocation of CO_2 credits – actually in line with PGE, which already has a short position instead of exports - CEZ is positively geared towards a stronger commodities universe driven by marginal prices in the mid-term. Additionally, looking at both the current year as well as into 2013e, CEZ is favourably valued, offering value based on real return an dividends above the current share price level. We confirm our "buy" recommendation.

Teresa Schinwald

CEZ

Source: Thomson Reuters

Income statement & balance sheet (IFRS)

CZK mn	2010	2011e	2012f	2013f
Income Statement				
Consolidated sales	198,848	208,124	206,468	216,611
EBITDA	89,089	86,627	91,742	87,334
EBIT	65,057	60,887	64,749	59,411
EBT	58,949	55,637	59,080	52,654
Net profit b.m.	46,408	43,481	44,194	42,650
Net profit a.m.	46,334	43,413	44,124	42,585
Balance sheet				
Total assets	543,691	591,569	614,423	636,159
Shareholders' equity	221,611	241,534	260,031	276,454
Goodwill	9,879	9,879	9,879	9,879
NIBD	124,979	137,662	151,151	150,852

Source: CEZ, Raiffeisen Centrobank estimates

Key ratios

	2010	2011e	2012f	2013f
EPS	86.80	81.33	82.66	79.77
PER	9.0	11.2	11.0	11.3
Operat. CF per share	174.17	136.19	140.73	135.55
Price cash flow	4.5	6.6	6.4	6.7
Book value per share	415.08	452.39	487.04	517.80
Price book value	1.9	2.0	1.9	1.7
Dividend yield	5.5%	5.3%	5.4%	5.2%
ROE	22.0%	18.7%	17.6%	15.9%
ROCE	13.5%	11.9%	11.4%	10.9%
EV/EBITDA	5.6	6.6	6.4	6.6

Source: CEZ, Raiffeisen Centrobank estimates

* the indicated price is the last price as available at 6.30 AM (CET) on 22 June 2011

Magyar Telekom
Gradual improvement ahead?

- ***Recommendation: Buy***
- ***Current share price: HUF 580.0*/ Target price: HUF 668.0***
- ***Market capitalisation: EUR 2,260 mn***

Magyar Telekom

Source: Thomson Reuters

Income statement & balance sheet (IFRS)

HUF mn	2010	2011e	2012f	2013f
Income Statement				
Sales	609,579	590,612	588,629	590,246
EBITDA	212,966	205,084	203,213	227,263
EBIT	112,094	105,326	105,508	130,615
EBT	83,954	76,815	76,717	102,323
Net profit b.m.	77,371	59,915	59,839	79,812
Net profit a.m.	64,378	47,165	47,089	67,062
Balance sheet				
Total assets	1,109,006	1,133,481	1,116,704	1,130,442
Shareh. equity	531,512	526,617	521,647	536,648
Goodwill	246,140	246,140	246,140	246,140
NIBD	289,446	281,826	281,717	266,323

Source: Magyar Telekom, Raiffeisen Centrobank estimates

Key ratios

	2010	2011e	2012f	2013f
EPS	61.83	45.30	45.23	64.41
PER	8.3	12.8	12.8	9.0
Operat. CF per share	160.63	154.96	151.43	169.38
Price cash flow	3.2	3.7	3.8	3.4
Book value per share	510.48	505.78	501.01	515.41
Price book value	1.0	1.1	1.2	1.1
Dividend yield	9.7%	8.6%	8.6%	11.2%
ROE	12.0%	8.9%	9.0%	12.7%
ROCE	10.5%	8.5%	8.5%	10.5%
EV/EBITDA	4.2	4.6	4.7	4.1

Source: Magyar Telekom, Raiffeisen Centrobank estimates

We expect MT's top line to slow down its decline next year and start to slightly grow in FY 2013. The top line turnaround should be supported by gradually improving GDP growth. Our economic team expects GDP growth to reach 2.5% yoy in FY 2011 and 3.0% yoy in FY 2012. Moreover, in our view, MT should benefit from its high market shares in all segments and the past investments mainly in the broadband area (e.g. FTTH rollout).

On the mobile side MT's domestic market share in the voice segment based on active SIM cards increased from 44% in FY 2009 to 45% in FY 2010. MT also increased domestic market shares in the TV segment from 26% in FY 2009 to 28% in FY 2010 and in the broadband area from 36% in FY 2009 to 38% in FY 2010. In our view, higher market shares are related to the promoted bundled services (double play, triple play and quadruple play), where demand has been picking up in the residential segment. On the operating costs side we expect MT's management to again decrease the total workforce costs in FY 2011.

Q1 2011 key figures were slightly ahead of our and market estimates. Earnings were positively impacted by a real estate gain and lower effective tax. However, the adjusted earnings growth rates were better in comparison to its CEE peers. MT's top line declined only 3.3% yoy and adjusted EBITDA grew 1.5% yoy in Q1 11.

Recently, the regulator required MT to unbundle its FTTH network from autumn this year. However, in our opinion, the competition is already quite intense in the segment (i.e. the competitors have their own infrastructure) therefore we do not expect further pressure on the broadband retail prices due to the above-mentioned measure.
In our opinion, the investors could lock into an attractive dividend yield of about 8.8% (a dividend of HUF 50 per share), which could be further increased in FY 2013 if the special taxes on the telecommunication services are indeed abolished at the end of FY 2012.

Jindrich Svatek

** the indicated price is the last price as available at 6.30 AM (CET) on 22 June 2011*

Basic Materials		FX	Price*	Rec.	Risk	from	Target price	MCap. EUR mn	Free float (%)	P/E 2011e	P/E 2012f	P/B 2011e	P/B 2012f	EV/EBITDA 2011e	EV/EBITDA 2012f	Dividend yield 2011e	Dividend yield 2012f
Alumil Rom Industry	RO	RON	1.406	B	h	11/04/11	1.90	10	20%	21.1	11.2	0.7	0.7	4.2	3.3	3.6%	6.8%
Ciech	PL	PLN	22.45	H	h	29/03/11	30.00	288	63%	20.2	8.2	0.9	0.8	4.8	3.9	0.0%	0.0%
Evraz	RU	USD	31.78	B	h	15/02/11	47.95	9,666	29%	10.1	7.6	1.2	1.0	5.3	4.1	2.0%	2.6%
Ferrexpo	UA	GBp	435.0	H	h	30/03/11	450.0	3,012	20%	7.2	11.1	3.0	2.5	5.2	7.7	2.3%	1.6%
Kety	PL	PLN	123.00	H	m	26/04/11	146.00	285	100%	11.6	9.7	1.2	1.1	6.8	5.7	3.3%	4.1%
KGHM	PL	PLN	184.50	H	m	30/03/11	190.00	9,279	68%	7.7	7.9	1.9	1.7	4.3	4.5	5.2%	5.0%
Mayr-Melnhof	AT	EUR	80.07	H	m	26/04/11	92.00	1,600	34%	12.0	11.7	1.5	1.4	5.0	4.6	2.6%	2.7%
Mechel	RU	USD	26.30	B	h	31/05/11	34.80	7,604	33%	14.8	10.6	2.1	1.8	6.9	5.7	1.4%	2.2%
MMK	RU	USD	12.18	UR	h	28/03/11	16.72	7,263	13%	13.8	9.5	0.9	0.9	6.1	4.3	1.5%	2.0%
New World Resources	CZ	CZK	260.0	B	h	16/02/11	391.6	2,836	36%	6.8	7.1	3.2	2.5	4.3	3.9	4.4%	6.4%
NLMK	RU	USD	35.90	UR	h	24/02/11	50.63	14,945	13%	10.2	8.0	1.8	1.5	6.1	4.7	2.4%	3.7%
RHI	AT	EUR	19.87	B	h	02/03/11	UR	791	53%	6.4	5.7	1.8	1.5	4.4	4.0	5.1%	5.7%
Semperit	AT	EUR	36.55	B	m	24/06/11	46.00	752	36%	15.0	13.3	2.0	1.9	6.5	5.3	3.8%	4.5%
Severstal	RU	USD	18.14	B	h	16/03/11	21.80	12,697	18%	31.2	8.0	2.5	1.9	5.9	5.1	0.6%	2.5%
Synthos	PL	PLN	5.31	H	m	24/02/11	UR	1,767	43%	11.7	12.0	2.6	2.1	7.2	6.8	0.0%	0.0%
voestalpine	AT	EUR	35.55	H	h	30/03/11	37.90	5,986	62%	13.4	12.1	1.7	1.5	6.5	5.7	3.0%	2.9%
Mean (companies)										13.3	9.6	1.8	1.6	5.6	5.0	2.6%	3.3%
Median (companies)										11.9	9.6	1.8	1.5	5.6	4.7	2.5%	2.8%
Financials																	
Banca Transilvania	RO	RON	1.216	H	h	13/04/11	1.40	510	82%	16.0	9.1	1.0	0.9	n.a.	n.a.	0.0%	4.8%
Bank BGZ	PL	PLN	59.10	H	m	27/05/11	62.00	642	16%	15.6	12.5	1.0	0.9	n.a.	n.a.	0.0%	0.0%
Bank Millennium	PL	PLN	5.27	H	m	04/05/11	UR	1,608	35%	12.8	9.6	1.4	1.3	n.a.	n.a.	3.1%	4.7%
Bank Pekao SA	PL	PLN	171.50	H	m	27/05/11	182.00	11,312	41%	14.7	13.0	2.1	2.0	n.a.	n.a.	5.1%	5.8%
BRD-GSG	RO	RON	14.10	B	m	30/05/11	16.60	2,323	41%	10.0	8.0	1.5	1.3	n.a.	n.a.	3.0%	5.2%
BRE Bank	PL	PLN	330.30	R	m	04/05/11	338.00	3,496	30%	14.4	11.3	1.8	1.6	n.a.	n.a.	1.0%	1.8%
BZ WBK	PL	PLN	224.00	R	m	04/05/11	221.00	4,110	30%	14.2	11.8	2.3	2.0	n.a.	n.a.	3.5%	4.2%
Erste Group**	AT	EUR	35.03	B	m	23/03/11	UR	13,056	54%	12.1	8.9	1.0	0.9	n.a.	n.a.	2.3%	2.9%
Getin	PL	PLN	13.28	H	m	06/06/11	15.30	2,441	44%	8.4	10.7	1.7	1.5	n.a.	n.a.	0.0%	0.0%
Komercni Banka	CZ	CZK	4,148.0	B	m	03/11/10	UR	6,502	40%	11.0	9.9	1.9	1.7	n.a.	n.a.	5.8%	6.3%
NKBM	SI	EUR	7.40	B	m	29/03/11	UR	289	49%	8.6	6.5	0.5	0.5	n.a.	n.a.	3.2%	4.6%
OTP	HU	HUF	5,750	B	m	20/04/11	7,320	5,807	69%	9.0	7.4	1.1	1.0	n.a.	n.a.	7.3%	8.8%
PKO BP	PL	PLN	42.48	B	m	27/05/11	50.50	13,352	49%	12.6	9.9	2.2	1.9	n.a.	n.a.	3.6%	4.5%
Raiffeisen Bank Intl.°	AT	EUR	34.70	NR	m	NR	NR	5,367	37%	7.1	5.8	0.9	0.8	n.a.	n.a.	2.8%	3.2%
UNIQA°	AT	EUR	15.15	NR	m	NR	NR	1,995	5%	21.5	18.5	1.5	1.4	n.a.	n.a.	2.2%	1.9%
Vienna Insurance Group	AT	EUR	37.70	H	m	27/03/11	46.00	4,826	30%	12.1	10.9	1.0	1.0	n.a.	n.a.	3.1%	3.4%
Mean (companies)										12.4	10.2	1.4	1.3	n.a.	n.a.	2.9%	3.9%
Median (companies)										12.3	9.9	1.5	1.3	n.a.	n.a.	3.0%	4.4%

Recommendation categories: B - Buy H - Hold R - Reduce S - Sell RS - Recommendation suspended UR - Under review NR - Not rated
Risk categories: h - high m - medium l - low
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Source: Raiffeisen Centrobank

		FX	Price*	Rec.	Risk	from	Target price	MCap. EUR mn	Free float (%)	P/E 2011e	P/E 2012f	P/B 2011e	P/B 2012f	EV/EBITDA 2011e	EV/EBITDA 2012f	Dividend yield 2011e	Dividend yield 2012f
Industrials																	
Andritz	AT	EUR	72.14	H	m	28/03/11	72.00	3,735	70%	18.0	15.9	4.3	3.7	6.9	6.2	2.8%	3.2%
Flughafen Wien	AT	EUR	36.10	H	m	31/05/11	42.00	758	50%	8.7	16.5	0.9	0.9	7.3	8.4	5.5%	4.2%
Oesterreichische Post	AT	EUR	21.56	H	m	02/05/11	27.00	1,456	47%	11.8	11.1	2.0	2.0	4.5	4.3	7.7%	7.9%
Palfinger	AT	EUR	24.64	B	m	04/03/11	32.00	872	34%	15.6	11.5	2.4	2.1	9.3	7.3	2.0%	2.7%
Polytec**	AT	EUR	7.80	B	h	11/04/11	9.50	174	44%	5.6	5.8	1.5	1.3	2.8	2.5	3.8%	4.5%
Rosenbauer	AT	EUR	35.94	B	m	28/03/11	45.00	244	44%	10.3	10.8	1.9	1.7	6.3	6.1	2.2%	2.4%
Teraplast**	RO	RON	0.50	UR	h	14/03/11	UR	35	45%	9.5	7.7	0.8	0.8	6.3	5.2	0.0%	0.0%
Mean (companies)										11.4	11.3	2.0	1.8	6.2	5.7	3.4%	3.5%
Median (companies)										10.3	11.1	1.9	1.7	6.3	6.1	2.8%	3.2%
Oil & Gas																	
Gazprom	RU	RUB	201	B	h	17/03/11	257	118,285	43%	4.8	4.4	0.7	0.6	3.5	3.1	1.5%	1.7%
INA	HR	HRK	4,191	S	h	17/03/11	3,095	5,680	8%	9.4	7.5	2.4	1.8	6.4	5.0	0.0%	0.0%
Lotos	PL	PLN	45.71	H	m	17/03/11	47.00	1,493	47%	9.9	7.7	0.7	0.7	7.4	6.3	1.0%	2.6%
LUKoil	RU	RUB	1,738	B	h	17/03/11	2,636	33,766	60%	4.5	4.9	0.7	0.6	2.9	3.0	4.8%	4.4%
MOL	HU	HUF	21,250	B	m	01/06/11	28,830	7,109	33%	8.9	7.1	1.2	1.0	5.0	4.1	4.5%	5.7%
OMV	AT	EUR	28.89	B	m	22 June 2011	36.00	8,632	48%	6.5	5.8	0.9	0.8	2.8	2.7	4.6%	5.2%
Petrol	SI	EUR	210.90	H	m	17/03/11	270.00	435	71%	9.4	9.5	1.0	1.0	8.6	8.4	3.0%	3.1%
Petrom	RO	RON	0.383	B	m	17/03/11	0.48	5,130	6%	7.7	6.9	1.1	0.9	3.9	3.6	3.9%	4.3%
PKN	PL	PLN	52.50	H	m	27/04/11	60.00	5,646	72%	10.9	10.7	0.9	0.9	7.1	6.6	2.3%	2.3%
Rosneft	RU	RUB	235	H	m	17/03/11	268	61,929	15%	8.4	9.6	1.4	1.2	5.1	5.2	0.9%	0.8%
SBO	AT	EUR	62.12	H	m	16/05/11	67.00	990	69%	22.7	18.0	3.5	3.1	10.0	8.4	2.0%	2.4%
Tatneft	RU	RUB	170	B	m	14/06/11	199	8,962	8%	6.2	5.4	0.9	0.8	4.8	4.2	3.7%	4.2%
Unipetrol	CZ	CZK	173.4	H	m	17/03/11	200.0	1,297	37%	24.9	16.4	0.8	0.8	5.4	4.5	2.0%	4.9%
Mean (companies)										10.3	8.8	1.2	1.1	5.6	5.0	2.6%	3.2%
Median (companies)										8.9	7.5	0.9	0.9	5.1	4.5	2.3%	3.1%
Healthcare																	
Biofarm	RO	RON	0.198	H	h	26/04/11	0.23	51	47%	12.3	11.8	1.4	1.2	7.3	6.3	0.0%	0.0%
Egis	HU	HUF	19,555	H	m	25/03/11	21,485	570	43%	8.8	9.2	0.9	0.8	4.2	4.0	0.6%	0.6%
Gedeon Richter	HU	HUF	36,285	B	m	09/02/11	47,775	2,529	54%	12.7	11.9	1.4	1.3	8.0	6.8	2.0%	2.1%
Intercell	AT	EUR	2.95	H	h	15/06/11	3.40	143	77%	neg.	neg.	1.5	1.8	neg.	neg.	0.0%	0.0%
Krka	SI	EUR	60.00	B	l	14/01/11	76.00	2,028	70%	12.1	11.7	1.7	1.5	6.9	6.2	1.6%	1.7%
Mean (companies)										11.5	11.1	1.4	1.4	6.6	5.8	0.8%	0.9%
Median (companies)										12.2	11.7	1.4	1.3	7.1	6.2	0.6%	0.6%

Recommendation categories: B - Buy H - Hold R - Reduce S - Sell RS - Recommendation suspended UR - Under review NR - Not rated
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		FX	Price*	Rec.	Risk	from	Target price	MCap. EUR mn	Free float (%)	P/E 2011e	P/E 2012f	P/B 2011e	P/B 2012f	EV/EBITDA 2011e	EV/EBITDA 2012f	Dividend yield 2011e	Dividend yield 2012f
Technology																	
Asseco Poland	PL	PLN	50.60	B	m	30/05/11	68.00	987	84%	9.9	9.4	0.8	0.8	4.9	4.4	2.9%	3.1%
AT&S	AT	EUR	13.76	B	m	16/03/11	UR	321	51%	9.4	8.8	1.2	1.1	4.9	4.5	2.9%	3.7%
austriamicrosystems	AT	CHF	42.85	B	m	18/03/11	57.00	318	95%	9.7	7.8	1.7	1.5	6.0	5.1	3.0%	3.7%
Ericsson Nikola Tesla	HR	HRK	1,419	H	m	27/05/11	1,484	256	41%	14.3	13.4	2.0	2.1	7.4	7.3	10.6%	10.6%
Kapsch TrafficCom	SI	EUR	59.21	B	l	14/03/11	73.40	722	30%	11.4	10.2	3.0	2.5	6.5	5.4	2.5%	2.9%
Mean (companies)										10.9	9.9	1.7	1.6	6.0	5.3	4.4%	4.8%
Median (companies)										9.9	9.4	1.7	1.5	6.0	5.1	2.9%	3.7%
Telecommunicaltion																	
Hrvatski Telekom	HR	HRK	257	H	m	06/05/11	282	2,849	38%	11.9	11.6	1.9	1.9	4.8	4.7	8.6%	8.6%
Magyar Telekom	HU	HUF	580	B	m	16/03/11	668	2,260	41%	12.8	12.8	1.1	1.2	4.6	4.7	8.6%	8.6%
MTS	RU	USD	19.42	B	h	26/04/11	25.60	13,479	49%	9.4	9.9	3.6	3.2	4.5	4.4	6.3%	6.1%
Netia	PL	PLN	5.85	B	m	10/05/11	6.30	575	69%	87.5	19.0	1.0	0.9	4.4	3.7	0.0%	4.2%
Telefonica O2 CR	CZ	CZK	429.7	H	m	29/03/11	420.0	5,709	31%	15.6	14.8	2.0	2.1	6.0	6.1	9.3%	9.3%
Telekom Austria	AT	EUR	8.77	H	m	17/05/11	10.20	3,886	72%	51.8	13.2	3.1	3.1	6.0	5.0	8.7%	8.7%
TPSA	PL	PLN	17.30	UR	m	02/02/11	UR	5,810	50%	16.1	13.8	1.6	1.7	5.0	4.7	8.7%	8.7%
VimpelCom Ltd	RU	USD	13.18	B	h	04/04/11	18.00	14,802	17%	9.8	9.3	1.8	1.6	4.6	4.2	4.6%	5.5%
Mean (companies)										26.9	13.0	2.0	2.0	5.0	4.7	6.8%	7.5%
Median (companies)										14.2	13.0	1.9	1.8	4.7	4.7	8.6%	8.6%
Utilities																	
CEZ	CZ	CZK	901.9	B	m	24/06/11	1,050.0	19,864	30%	11.2	11.0	2.0	1.9	6.6	6.4	5.3%	5.4%
EVN	AT	EUR	12.15	H	l	24/06/11	13.50	2,176	16%	11.6	10.6	0.7	0.6	3.2	2.8	3.6%	3.6%
PGE	PL	PLN	24.67	H	m	24/06/11	25.00	11,599	31%	11.0	9.5	1.2	1.1	5.3	4.7	4.1%	4.7%
PGNiG	PL	PLN	4.22	H	m	22/03/11	4.20	6,261	27%	16.3	16.8	1.0	1.0	7.7	7.5	2.4%	2.4%
Tauron	PL	PLN	6.77	H	m	24/06/11	7.20	2,983	60%	10.9	10.0	0.9	0.8	4.6	4.2	2.7%	3.0%
Transelectrica**	RO	RON	23.00	H	m	29/03/11	UR	399	13%	10.8	10.5	0.8	0.8	5.5	4.8	4.7%	4.9%
Transgaz	RO	RON	263.00	H	m	03/06/11	285.00	732	11%	17.3	12.8	1.1	1.1	7.6	6.3	4.0%	5.1%
Verbund	AT	EUR	31.56	H	m	24/06/11	35.00	10,963	16%	24.0	16.0	2.5	2.3	11.4	8.8	2.0%	3.0%
Mean (companies)										14.1	12.2	1.3	1.2	6.5	5.7	3.6%	4.0%
Median (companies)										11.4	10.8	1.1	1.0	6.1	5.6	3.8%	4.2%
Construction & Materials																	
Bene	AT	EUR	1.59	RS	m	03/02/11	RS	39	54%	neg.	9.1	1.0	0.9	7.0	3.7	0.0%	3.1%
Budimex	PL	PLN	83.80	RS	m	20/04/11	RS	538	35%	8.1	9.5	3.0	3.0	2.5	3.3	10.7%	9.5%
Mostostal Warszawa	PL	PLN	31.00	S	m	31/05/11	27.50	156	29%	23.9	17.8	1.2	1.1	4.6	3.4	1.0%	1.4%
PBG	PL	PLN	147.50	RS	m	15/04/11	RS	530	30%	9.4	10.1	1.2	1.1	4.1	4.2	1.1%	1.0%
Polimex-Mostostal	PL	PLN	3.18	H	m	27/05/11	3.20	417	65%	14.3	13.3	1.1	1.0	6.8	6.1	1.4%	1.5%
STRABAG SE	AT	EUR	20.30	RS	m	24/02/11	RS	2,314	23%	14.5	14.3	0.7	0.7	3.1	3.1	2.7%	2.7%
Wienerberger	AT	EUR	13.20	RS	m	01/03/11	RS	1,550	100%	37.0	20.3	0.8	0.7	6.9	6.1	1.1%	1.5%
Zumtobel	AT	EUR	20.90	RS	m	10/03/11	RS	893	64%	12.8	9.9	2.0	1.7	6.3	5.1	2.4%	3.1%
Mean (companies)										17.2	13.0	1.4	1.3	5.2	4.4	2.6%	3.0%
Median (companies)										14.3	11.7	1.1	1.0	5.4	4.0	1.3%	2.1%

Recommendation categories: B - Buy H - Hold R - Reduce S - Sell RS - Recommendation suspended UR - Under review NR - Not rated
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** the indicated price is the last price as available at 6.30 AM (CET) on 22 June 2011; ** estimates under review, ° consensus estimates (Bloomberg)*
Source: Raiffeisen Centrobank

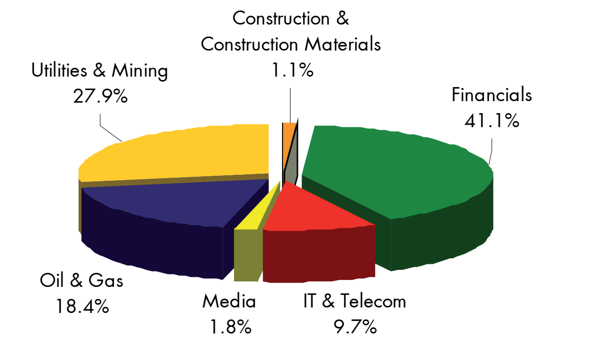
		FX	Price*	Rec.	Risk	from	Target price	MCap. EUR mn	Free float (%)	P/E 2011e	P/E 2012f	P/B 2011e	P/B 2012f	EV/EBITDA 2011e	EV/EBITDA 2012f	Dividend yield 2011e	Dividend yield 2012f
Real Estate																	
CA Immobilien	AT	EUR	12.95	H	m	06/04/11	14.10	1,137	83%	15.1	22.0	0.7	0.7	20.9	20.4	2.9%	2.9%
conwert	AT	EUR	11.74	B	m	30/03/11	14.00	1,008	77%	19.0	17.9	0.7	0.7	13.8	14.4	3.0%	3.0%
Echo Investment	PL	PLN	5.32	H	m	23/03/11	5.60	562	32%	8.3	6.5	1.0	0.9	13.7	9.6	0.0%	0.0%
Globe Trade Centre	PL	PLN	18.97	B	h	23/03/11	25.60	1,046	59%	6.8	7.6	0.9	0.8	9.1	8.9	0.0%	0.0%
Immofinanz	AT	EUR	2.91	B	m	14/01/11	4.00	2,809	90%	87.2	72.7	0.5	0.5	15.9	13.2	4.1%	4.1%
Polnord	PL	PLN	26.83	B	h	23/03/11	42.30	150	51%	275.9	6.3	0.5	0.5	39.2	9.0	0.0%	0.0%
Warimpex	AT	EUR	2.20	B	h	08/03/11	3.32	119	35%	109.5	23.3	1.3	1.2	13.9	12.4	0.0%	0.0%
Mean (companies)										74.6	22.3	0.8	0.8	18.1	12.6	1.4%	1.4%
Median (companies)										19.0	17.9	0.7	0.7	13.9	12.4	0.0%	0.0%
Consumer, cyclical																	
Agora	PL	PLN	18.12	B	m	24/05/11	25.00	232	88%	13.7	11.3	0.7	0.7	4.6	4.0	2.8%	5.5%
Cinema City	PL	PLN	35.70	H	m	30/05/11	41.00	460	25%	29.4	20.5	1.9	1.8	10.9	9.0	0.0%	0.0%
Cyfrowy Polsat	PL	PLN	16.07	B	m	21/03/11	18.50	1,408	27%	23.0	12.7	3.1	2.5	11.6	8.6	0.0%	2.6%
Gorenje	SI	EUR	9.40	B	m	22/03/11	16.50	148	54%	9.3	7.1	0.4	0.4	5.1	4.6	0.0%	0.0%
TVN	PL	PLN	16.21	H	m	27/05/11	18.50	1,396	44%	26.9	16.3	3.9	3.3	10.5	8.7	1.5%	2.0%
Wolford	AT	EUR	22.87	H	m	24/03/11	28.00	112	49%	12.0	9.6	1.2	1.1	5.7	4.8	3.1%	3.5%
Mean (companies)										19.1	12.9	1.9	1.6	8.1	6.6	1.2%	2.3%
Median (companies)										18.4	12.0	1.6	1.4	8.1	6.7	0.7%	2.3%
Consumer, non-cyclical																	
Adris	HR	HRK	260.1	H	h	17/05/11	288.0	569	44%	9.4	9.8	0.6	0.6	2.5	2.1	2.7%	2.7%
Agrana	AT	EUR	79.98	H	m	29/03/11	88.00	1,136	25%	12.7	11.6	1.2	1.1	6.8	6.1	3.1%	3.5%
CEDC	PL	USD	12.07	H	h	15/06/11	13.00	593	87%	33.5	23.7	0.5	0.5	11.7	10.8	0.0%	0.0%
Magnit	RU	USD	30.05	H	h	21/06/11	33.10	9,277	54%	39.4	29.2	6.5	5.4	17.0	12.8	0.3%	0.3%
Mercator	SI	EUR	178.00	H	m	23/12/10	183.00	663	44%	17.9	21.9	0.8	0.6	9.5	7.9	4.9%	5.2%
OKey	RU	USD	11.45	B	h	03/05/11	14.15	2,137	14%	30.2	18.3	5.6	4.9	13.3	9.4	0.0%	0.0%
Podravka	HR	HRK	323	H	h	13/05/11	377	230	30%	12.6	11.1	1.0	0.9	7.4	6.9	0.0%	1.7%
Viro	HR	HRK	457	UR	h	13/12/10	340	86	32%	13.8	13.4	1.2	1.1	6.5	6.0	2.4%	2.6%
X5	RU	USD	40.20	B	h	21/06/11	50.70	7,576	30%	26.4	19.9	4.4	3.6	11.8	9.7		
Mean (companies)										21.8	17.6	2.4	2.1	9.6	8.0	1.7%	2.0%
Median (companies)										17.9	18.3	1.2	1.1	9.5	7.9	1.3%	2.2%

Recommendation categories: B - Buy H - Hold R - Reduce S - Sell RS - Recommendation suspended UR - Under review NR - Not rated
Risk categories: h - high m - medium l - low
** the indicated price is the last price as available at 6.30 AM (CET) on 22 June 2011; ** estimates under review, ° consensus estimates (Bloomberg)*
Source: Raiffeisen Centrobank

Sector weightings in comparison

Sector weightings Poland, WIG 20

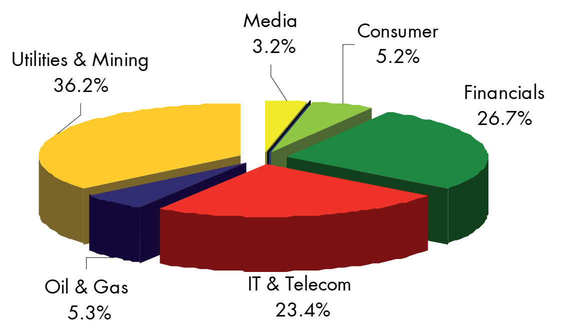
Dom. market cap.: EUR 152.04 bn (Source: FESE; 31/05/11)



Source: Thomson Reuters, Raiffeisen RESEARCH

Sector weightings Czech Republic, PX

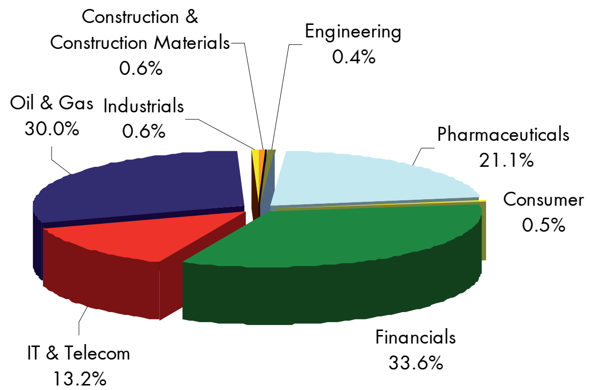
Dom. market cap.: EUR 36.12 bn (Source: FESE; 31/05/11)



Source: Thomson Reuters, Raiffeisen RESEARCH

Sector weightings Hungary, BUX

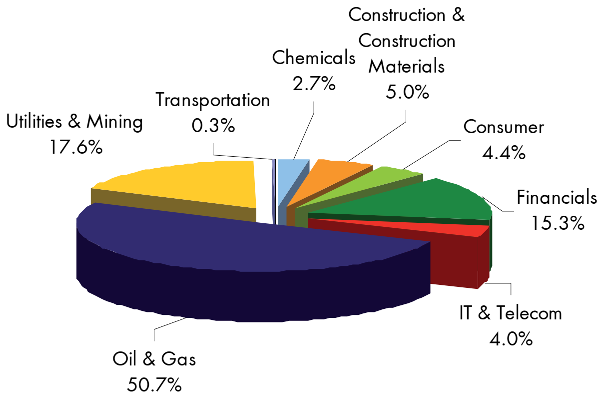
Dom. market cap.: EUR 23.41 bn (Source: FESE; 31/05/11)



Source: Thomson Reuters, Raiffeisen RESEARCH

Sector weightings Russia, MICEX

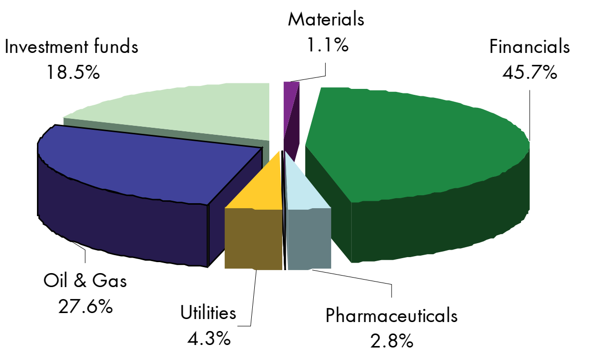
Dom. market cap.: EUR 533.1 bn (Source: MICEX ; 31/05/11)



Source: Thomson Reuters, Raiffeisen RESEARCH

Sector weightings Romania, BET

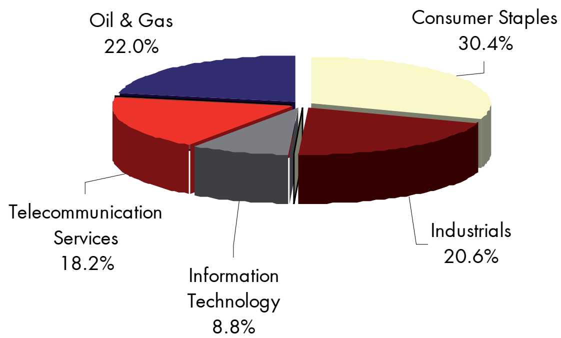
Dom. market cap.: EUR 27.23 bn (Source: FEAS; 31/05/11)



Source: Bloomberg, Raiffeisen RESEARCH

Sector weightings Croatia, CROBEX10

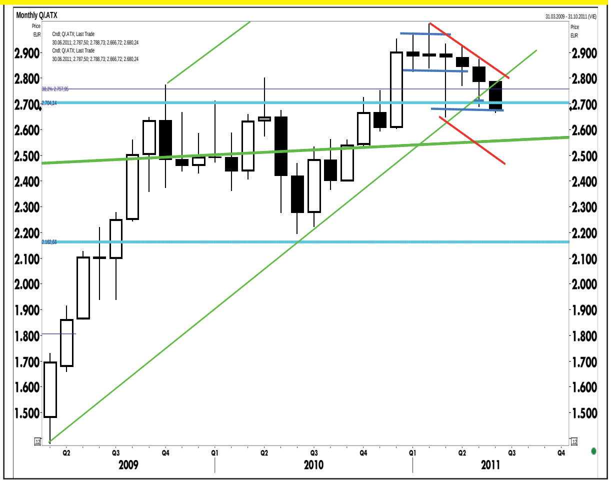
Dom. market cap.: EUR 20.74 bn (Source: FEAS; 31/05/11)



Source: Bloomberg, Raiffeisen RESEARCH

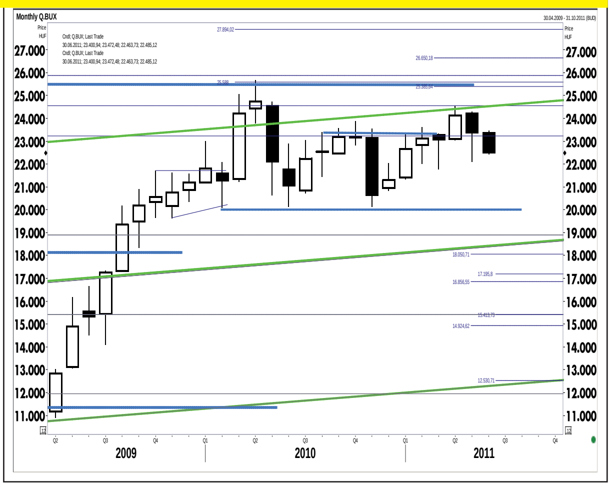
Stock markets
Bears off hibernation?

ATX



Source: Thomson Reuters, Raiffeisen RESEARCH

BUX



Source: Thomson Reuters, Raiffeisen RESEARCH

ATX

Sell 2,630 Target: 2,560 – 2,450
A setback to 2,560 could soon get triggered at 2,630. Should that support fail to prove firm, it would give way for a decline towards 2,400 – 2,350.

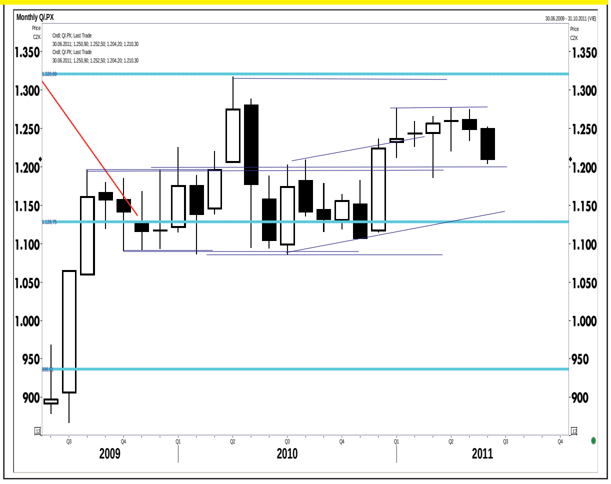
20 June 2011, 1:30 p.m. (CET)

BUX

Sell 21,770 Target: 20,060 – 18,050
Rectangle inst range 20,090 – 23,400, now the index might not just fall right through it, but confirm it to the downside together with targets 17,150 and 15,400.

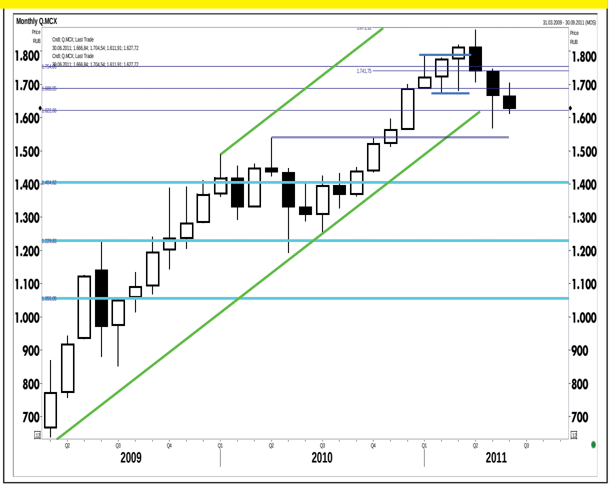
20 June 2011, 1:50 p.m. (CET)

PX



Source: Thomson Reuters, Raiffeisen RESEARCH

MICEX



Source: Thomson Reuters, Raiffeisen RESEARCH

PX

Buy 1,335 target: 1,140 - 1,125
Rectangle inst range 1,090 – 1,320. It might fall back to 1,125 or even 1,090 once the sell-signal at 1,180 gets triggered, a buy-signal would be: 1,285 -> 1,320.

20 June 2011, 1:55 p.m. (CET)

MICEX

Sell 1,590 Target: 1,560 – 1,400
The current all-time high at 1,970 should get crossed and the trend-channel be followed within. Stop 1,760 -> 1,620.

20 June 2011, 1:40 p.m. (CET)

WIG

Optimism to persist

BELEX15

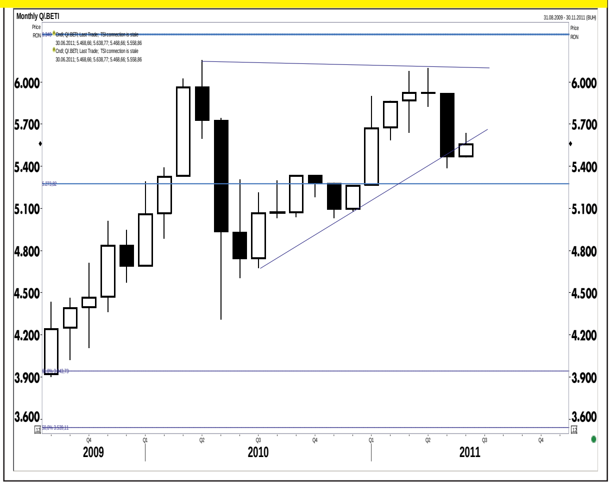
Source: Thomson Reuters, Raiffeisen RESEARCH

BELEX15

Position: long Target: 740 - 730
Large-scale sideways-range, but the upward-trend should get tested-out at around 730. This could be a chance to buy at the cheap.

20 June 2011, 2:11p.m. (CET)

BET



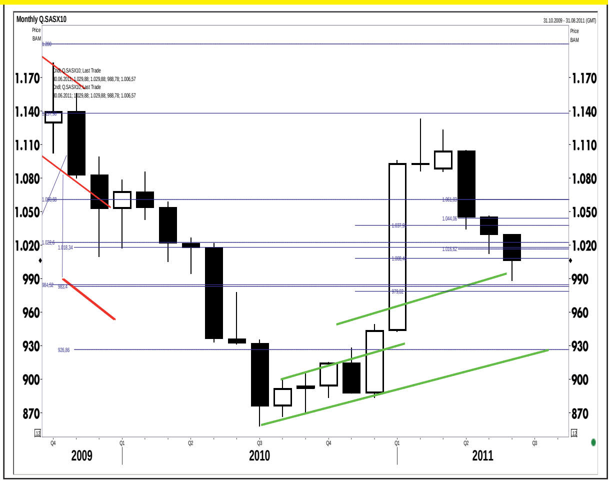
Source: Thomson Reuters, Raiffeisen RESEARCH

BET

Position: neutral
Either a decline towards 4,730 could get indicated at 5,230, a rebound towards 6,100 – 6,340 at 5,800.

20 June 2011, 2:05 p.m. (CET)

SASEX10 Index



Source: Thomson Reuters, Raiffeisen RESEARCH

SASEX10 Index

Sell 975 Target: 960 - 940
Even in it case it now should trigger 1,070 -> 1,020 bullish confirmation at 1,145 should follow.

20 June 2011, 2:15 p.m. (CET)

WIG 20

Source: Thomson Reuters, Raiffeisen RESEARCH

WIG 20

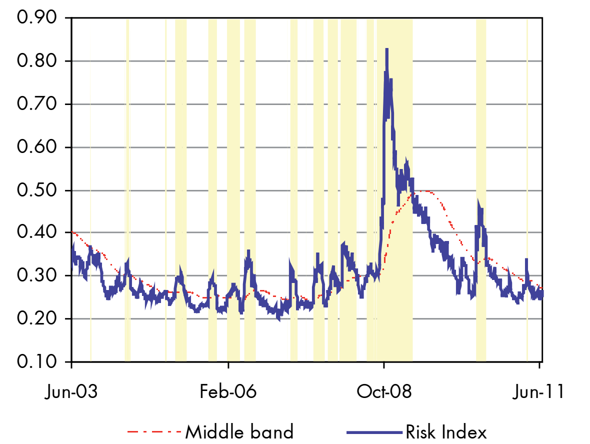
Buy 2,955 Target: 3,100 – 3,210
This combination made of upper Fibonacci-Retracement and trend-channel, both at 2,820, should provide good support. Stop 2,760 -> 2,680 – 2,460.

20 June 2011, 2:25 p.m. (CET)

Robert Schittler

Risk factors
and sentinent

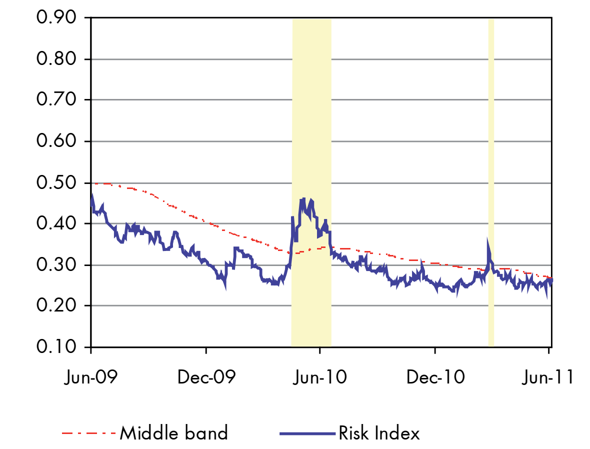
RBI EmEurope Risk Index



Last value: 21 June 2011
Source: Thomson Reuters, Raiffeisen RESEARCH

RBI EmEurope Risk Index
The Asset Allocation Group of Raiffeisen Research has developed risk indicators to detect periods of above and below average returns (boom and stagnation periods) in financial markets beforehand.
Risk index below middle band (boom period): Period of high risk appetite which should be accompanied by above-average returns.
Risk index above middle band (stagnation period): Period of low risk appetite in which below – average returns are to be expected.

RBI EmEurope Risk Index



Last value: 21 June 2011
Source: Thomson Reuters, Raiffeisen RESEARCH

Beta to MSCI World and MSCI EM
Beta: Measures the sensitivity of an equity index to changes of a factor (MSCI World and MSCI EM)
beta > 1: The equity index shows larger swings then the factor.
Up-Beta: Measures the sensitivity of an equity index to positive changes of a factor (MSCI World and MSCI EM).
up-beta > 1: The equtiy index rises more then the factor in positive periods.
Down-Beta: Measures the sensitivity of an equity index to negative changes of a factor (MSCI World and MSCI EM).
down-beta > 1: The equtiy index decreases more then the factor in negative periods.

Beta to MSCI World

	Beta	Up-Beta	Down-Beta	Up-Down
EM Europe	1.20	1.36	1.29	0.07
Czech Republic	0.50	0.61	0.47	0.14
Poland	0.83	0.78	0.97	-0.18
Russia	1.37	1.70	1.56	0.14
Hungary	1.39	1.29	1.31	-0.01

Betas to MSCI World; weekly returns of the last 2 years
Source: Thomson Reuters, Raiffeisen RESEARCH

Beta to MSCI EM

	Beta	Up-Beta	Down-Beta	Up-Down
EM Europe	1.20	1.34	1.61	-0.27
Czech Republic	0.48	0.43	0.26	0.17
Poland	0.82	0.82	1.07	-0.24
Russia	1.38	1.61	1.97	-0.36
Hungary	1.38	1.28	1.67	-0.39

Betas to MSCI EM; weekly returns of the last 2 years
Source: Thomson Reuters, Raiffeisen RESEARCH

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Semperit	3
CEZ	5
Magyar Telekom	-

Detailed disclosure and disclaimer on the aforementioned companies as well as on the "coverage universe" of Raiffeisen Centrobank pursuant to § 48 Stock Exchange Act: http://www.rcb.at.

Abbreviations

Currencies and Countries

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

Economic abbreviations

%-chg	Percentage change (not in percentage points)
avg	average
bp	basis points
C/A	Current Account
CPI	Consumer Price Index
FDI	Foreign Direct Investments
FX	Foreign Exchange
GDP	Gross Domestic Product
LCY	Local Currency
mmav	month moving average
mom	month on month
pp	percentage points
PPI	Producer Price Index
qoq	quarter on quarter
T/B	Trade Balance
ULC	Unit Labour Costs
yoy	year on year

Stock Exchange Indices

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

Equity related

DY	Dividend yield
EG	Earnings growth
LTG	Long term (earnings) growth
P/E	Price earnings ratio
RS	Recommendation suspended
UR	Under Revision

CE	Central European countries - Poland, Hungary, Czech Republic, Slovakia, Slovenia
SEE	South East European countries - Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Romania, Serbia
CIS	European CIS (Commonwealth of Independent States) countries - Russia, Ukraine, Belarus
CEE	Central and Eastern Europe (CE + SEE + CIS)

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