CEE – Focus Romania

Peter Brezinschek, Global Head of RBI Group Research
Stefan Maxian, Chief Analyst of Raiffeisen Centrobank
Ionut Dumitru, Head of Local Research Raiffeisen Bank S.A.

Bucharest, 15 November 2013

Raiffeisen RESEARCH Raiffeisen Bank International

Economic Core Views

Peter Brezinschek, Head of Global RBI Group Research

Bucharest, 15 November 2013

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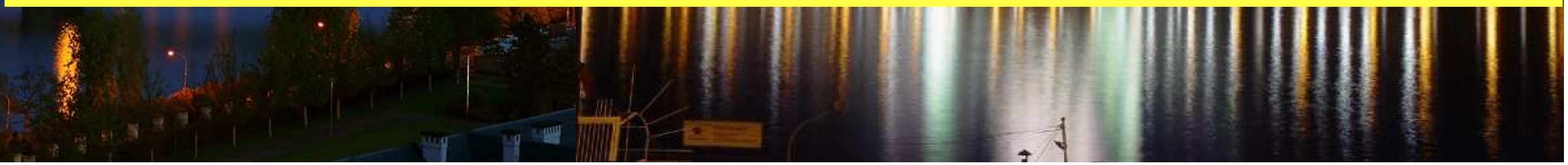
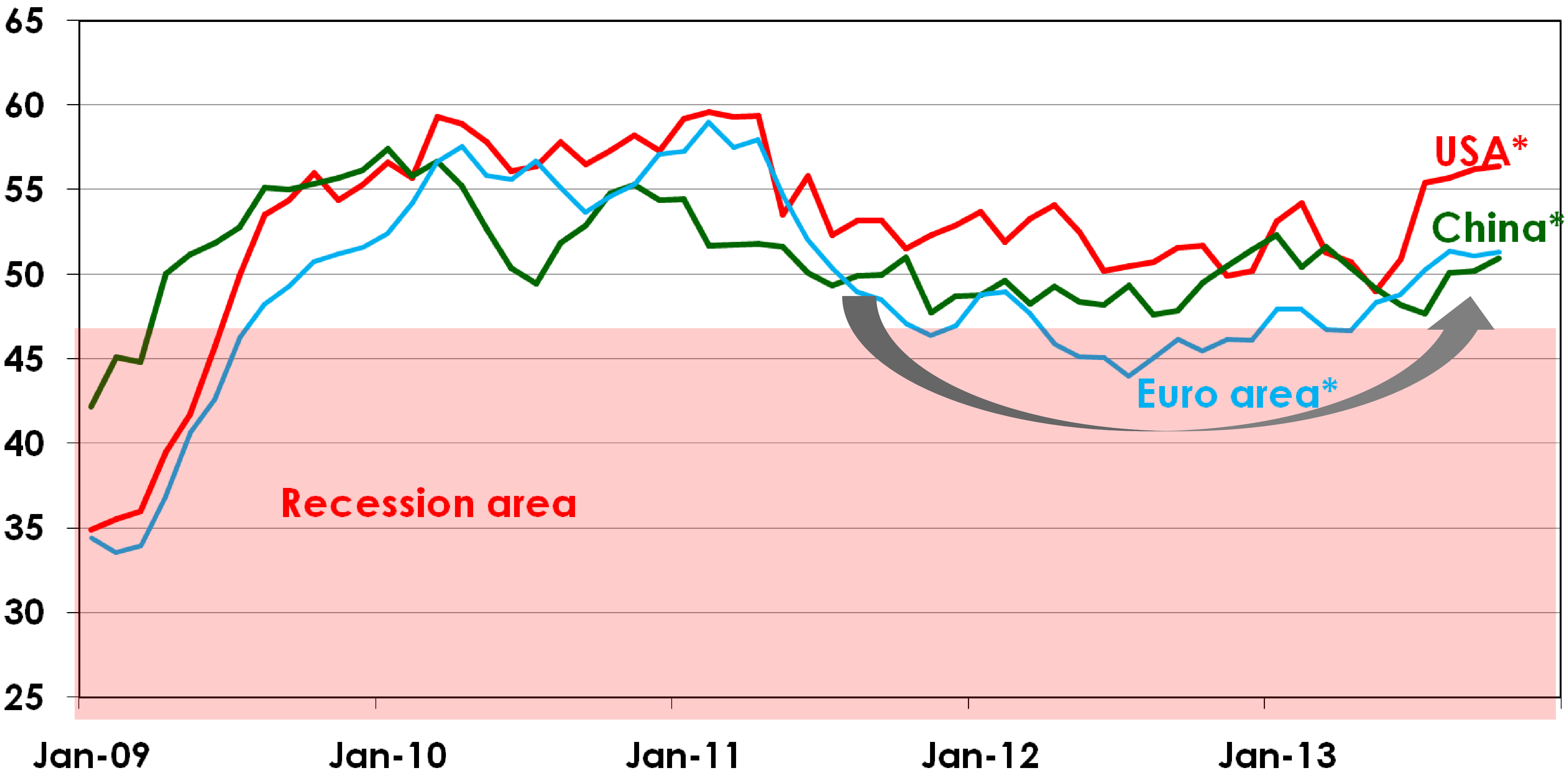


GLOBAL LEADING INDICATORS*
Advanced economies take the lead

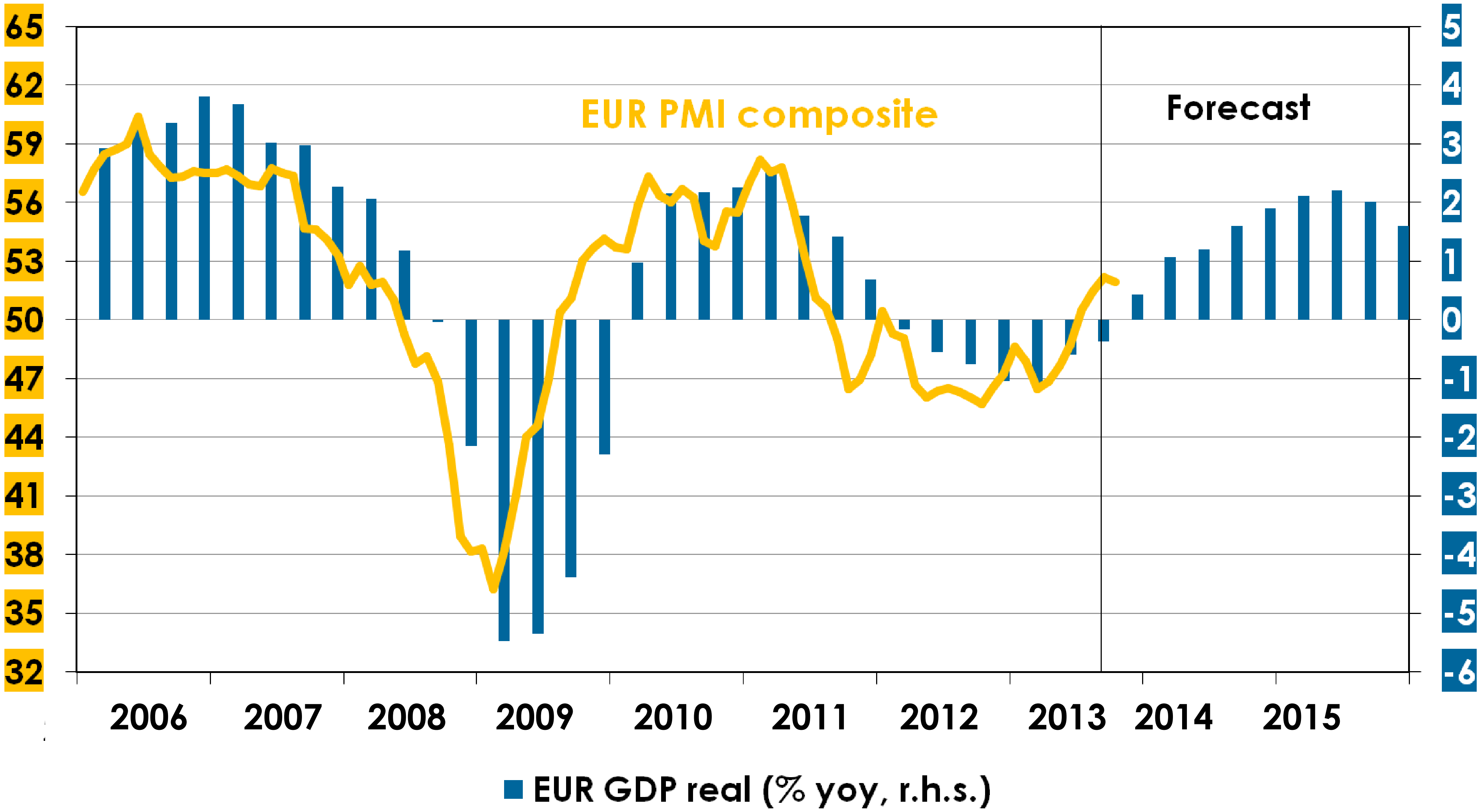
Raiffeisen Bank International



** ISM / Purchasing managers' indices – manufacturing*
Source: Thomson Reuters, Markit, Raiffeisen RESEARCH

EURO AREA: ECONOMY
works its way out of recession

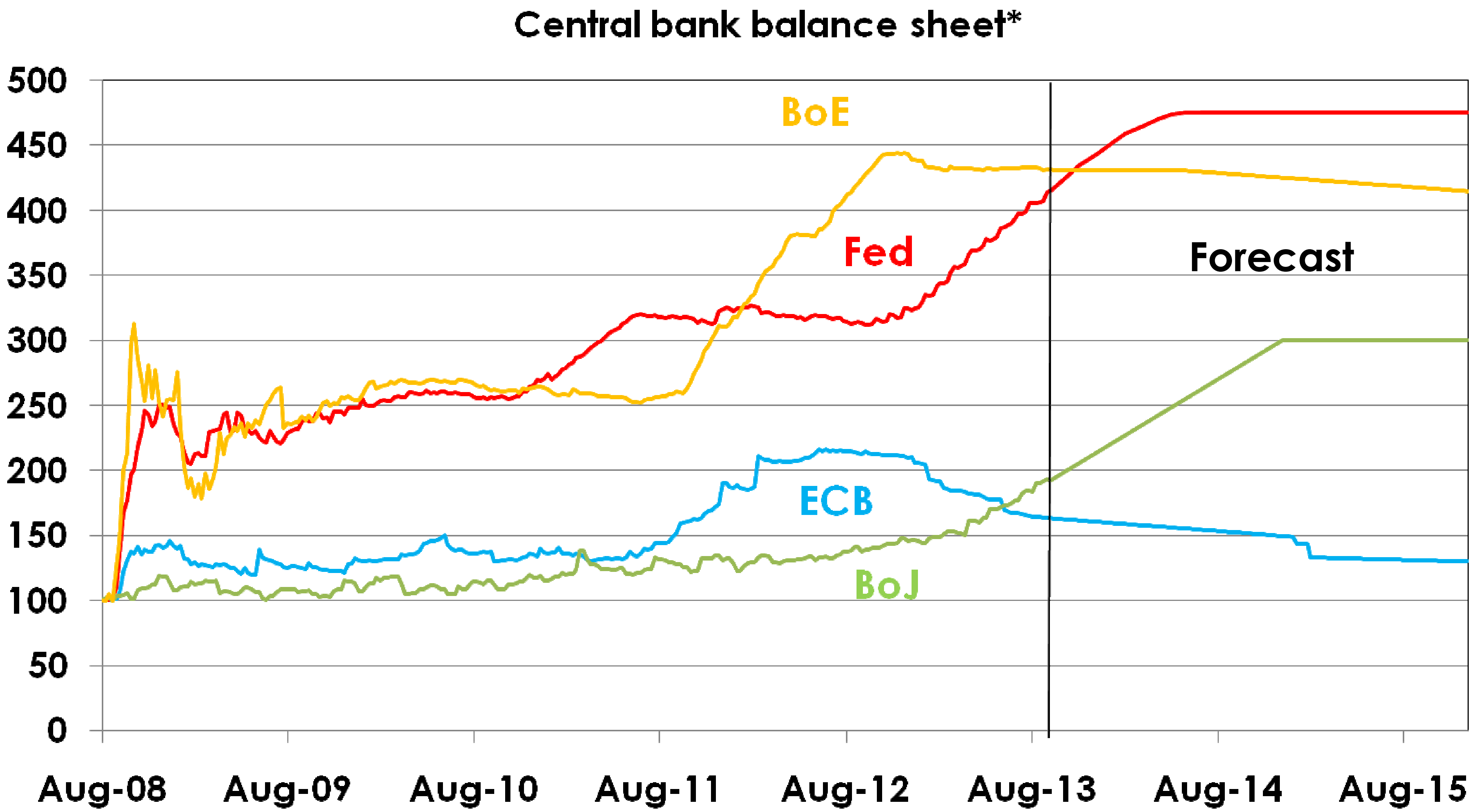
Raiffeisen Bank International



Source: Thomson Reuters, Raiffeisen RESEARCH

MONETARY POLICY: LIQUIDITY remains ample, but its growth will disappear

Raiffeisen Bank International

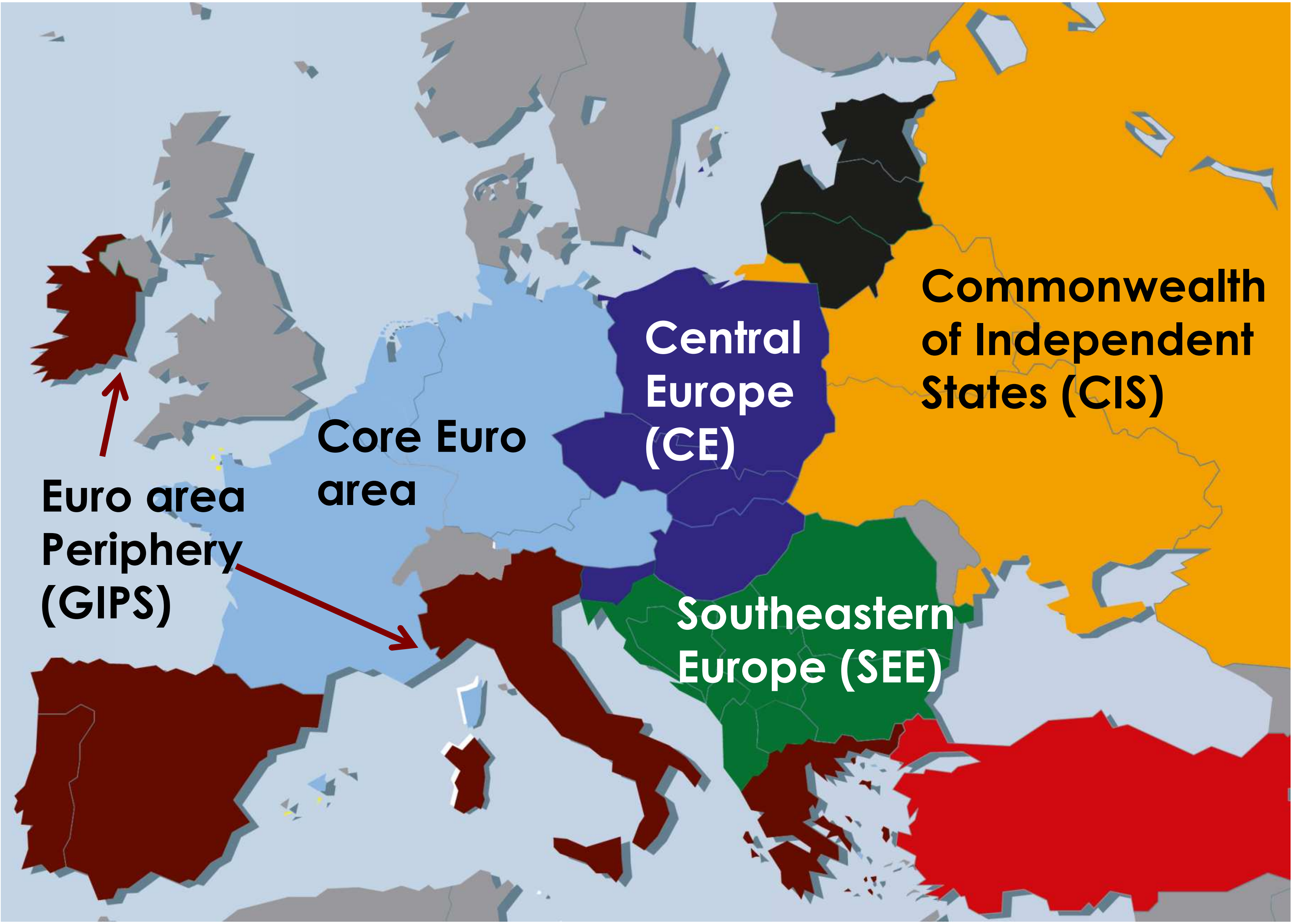


** 25th August 2008 = 100*

Source: Thomson Reuters, Raiffeisen RESEARCH

CEE AND ITS HETEROGENEOUS SUB-REGIONS CE, SEE, and CIS

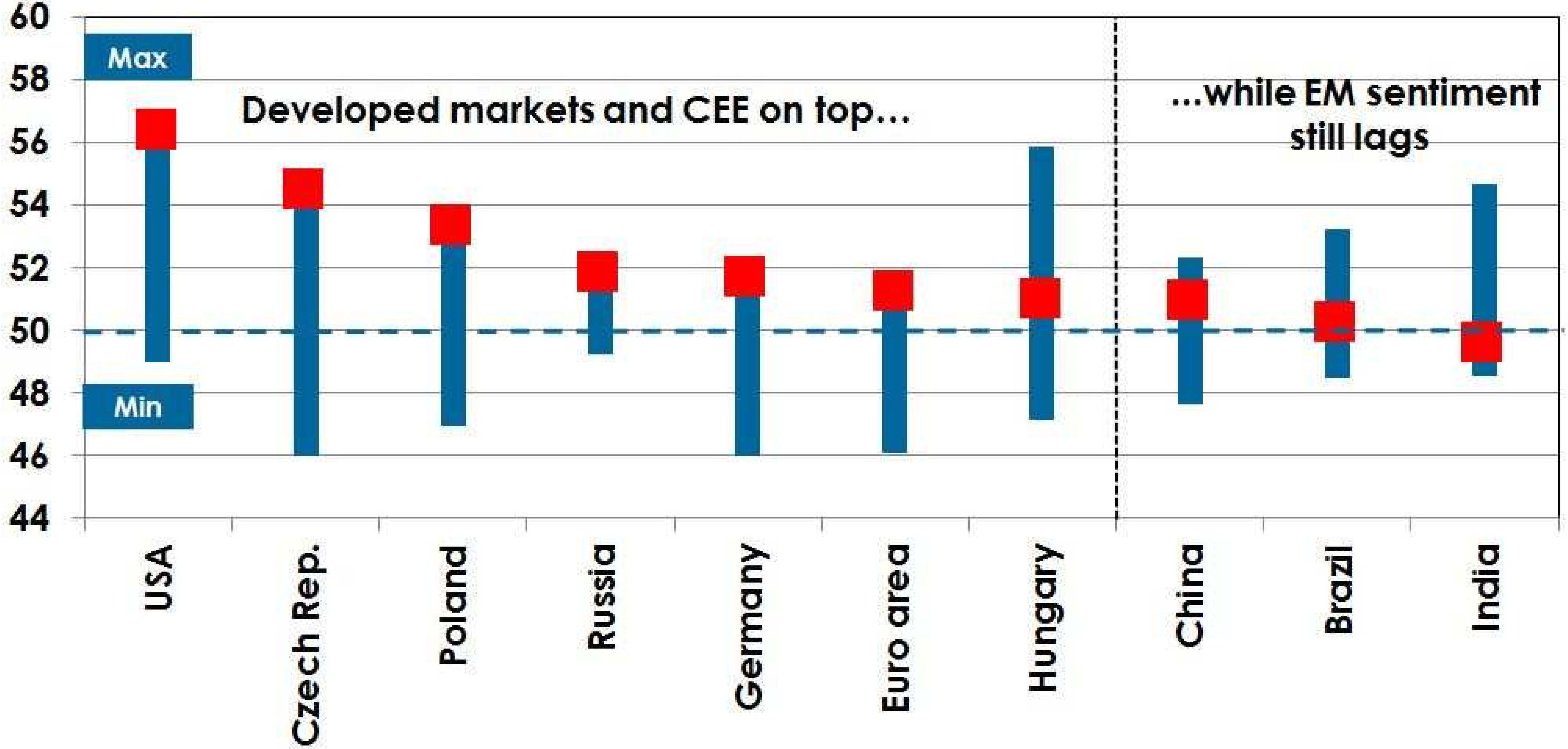
Raiffeisen Bank International



CEE ECONOMICS
PMI trends favourable for CEE

Raiffeisen Bank International

Change in PMI over recent 12 months (points), latest data point Oct-13

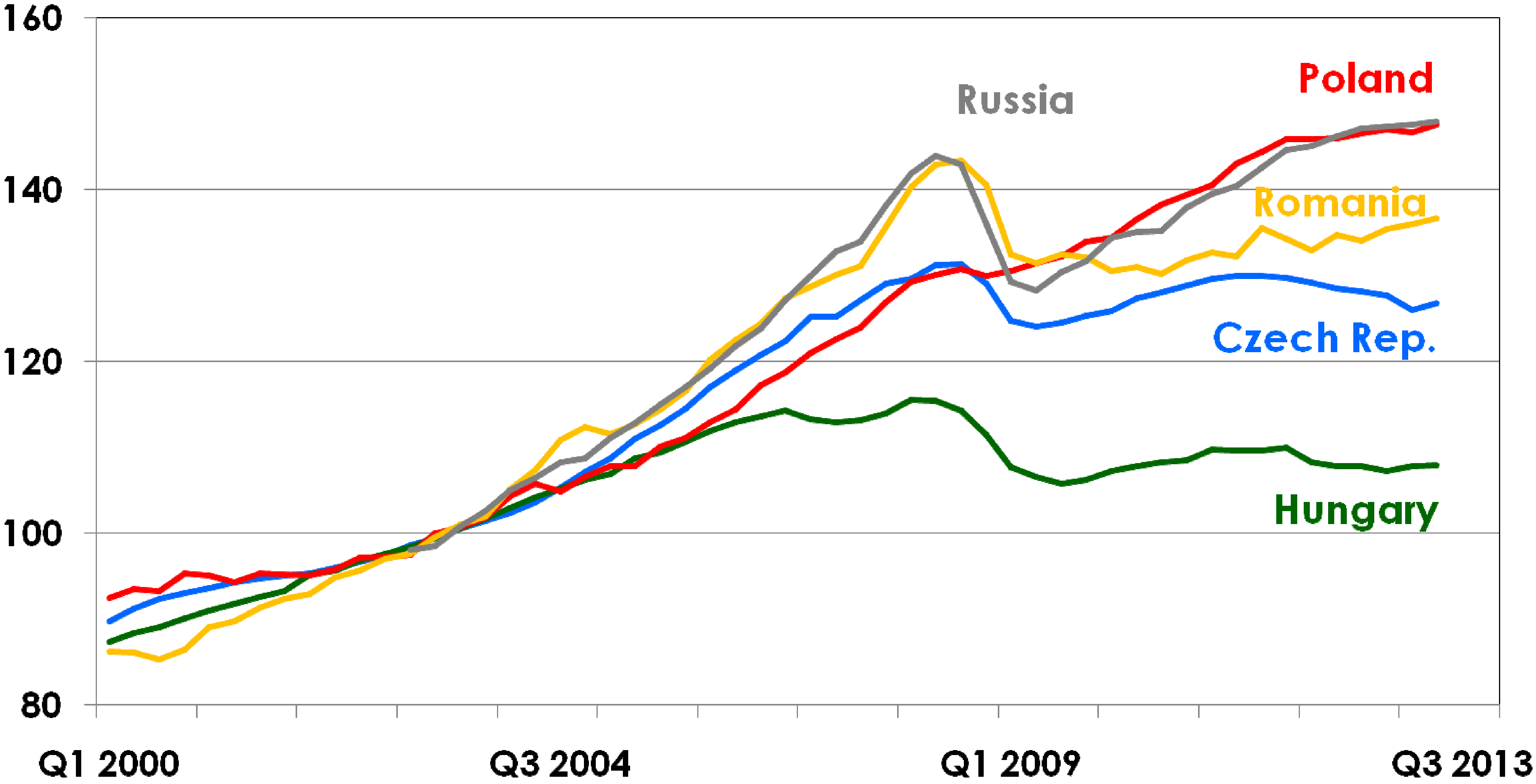


Source: Bloomberg, Markit, Raiffeisen RESEARCH

GDP
Past decade - Divergence on country level

Raiffeisen Bank International

Real GDP indices major CEE countries (SA, 2003 =100)



GDP
The golden years are over

Raiffeisen Bank International

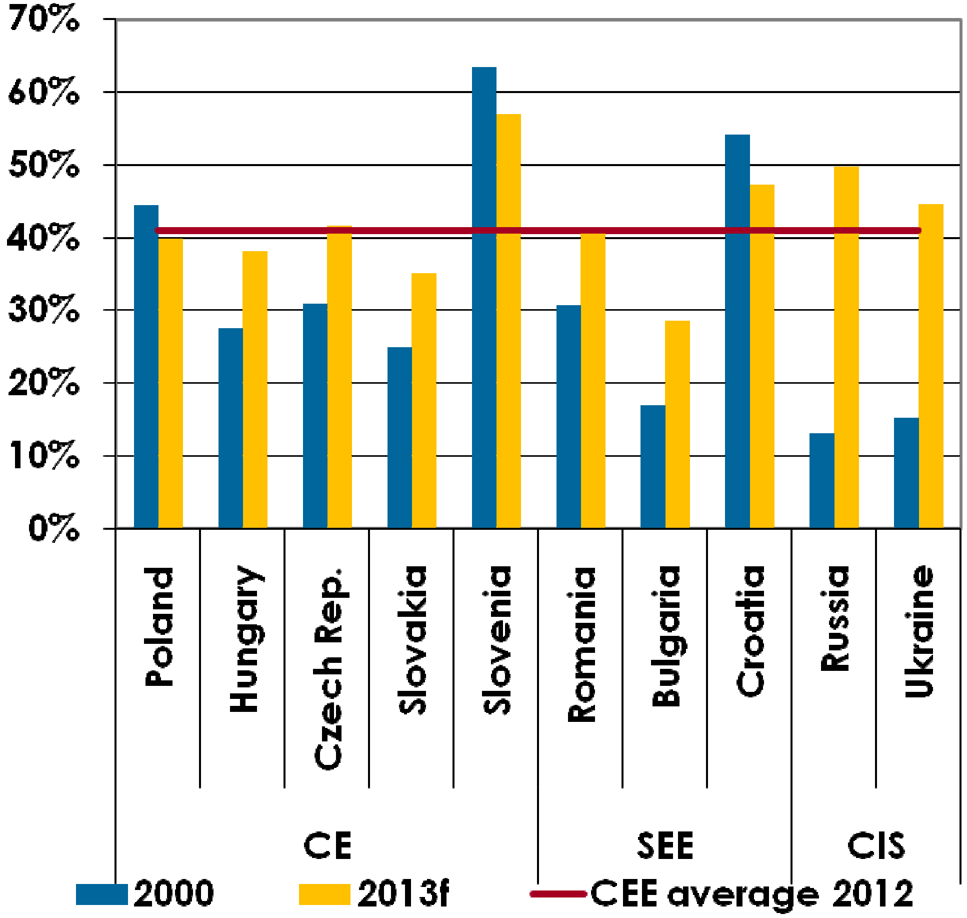
Real GDP (% yoy)	2000-2008 (avg)	2013e	2014f	2015f
Poland	4.2	1.2	2.5	3.0
Hungary	3.3	0.5	1.5	1.5
Czech Rep.	4.5	-1.0	1.9	2.4
Slovakia	5.6	0.9	2.0	3.0
Slovenia	4.3	-2.0	-0.5	1.5
CE	4.3	0.5	2.0	2.6
Croatia	4.3	-0.5	1.0	1.5
Bulgaria	5.7	0.5	2.0	3.5
Romania	5.8	2.5	2.0	2.5
Serbia	5.0	1.5	2.0	3.0
Bosnia a.H.	4.9	0.5	1.5	3.5
Albania	6.1	2.0	3.0	3.5
SEE	5.4	1.5	1.9	2.7
Russia	7.0	1.5	2.0	2.5
Ukraine	6.9	-1.0	1.5	2.5
Belarus	8.0	2.0	2.0	3.0
CIS	7.0	1.3	2.0	2.5
CEE	6.1	1.1	2.0	2.6
Eurozone	2.0	-0.3	1.5	2.0
Germany	1.6	0.5	1.8	2.5
Austria	2.3	0.5	1.5	2.3

Source: Bloomberg, Raiffeisen RESEARCH

UNIT LABOUR COSTS
Still far below Western Europe

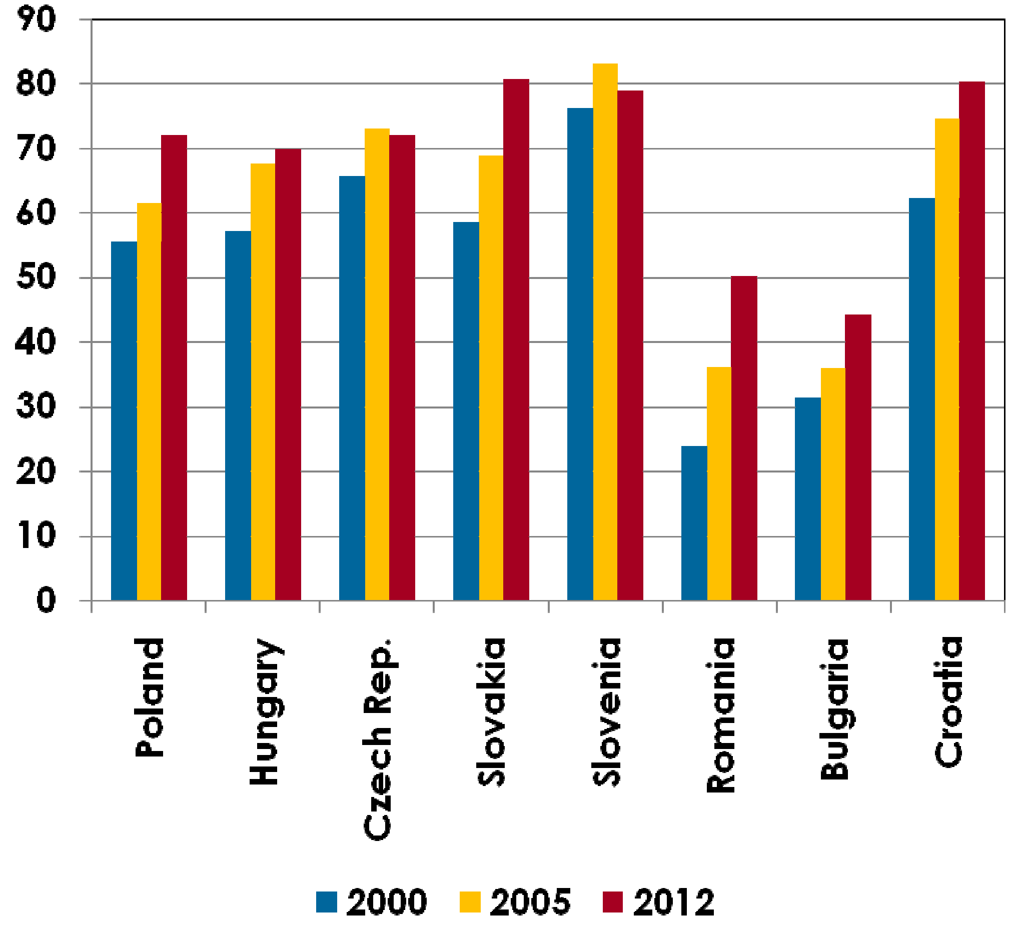
Raiffeisen Bank International

Unit labour costs



Indexed: Austria = 100
Source: wiiw, Raiffeisen RESEARCH

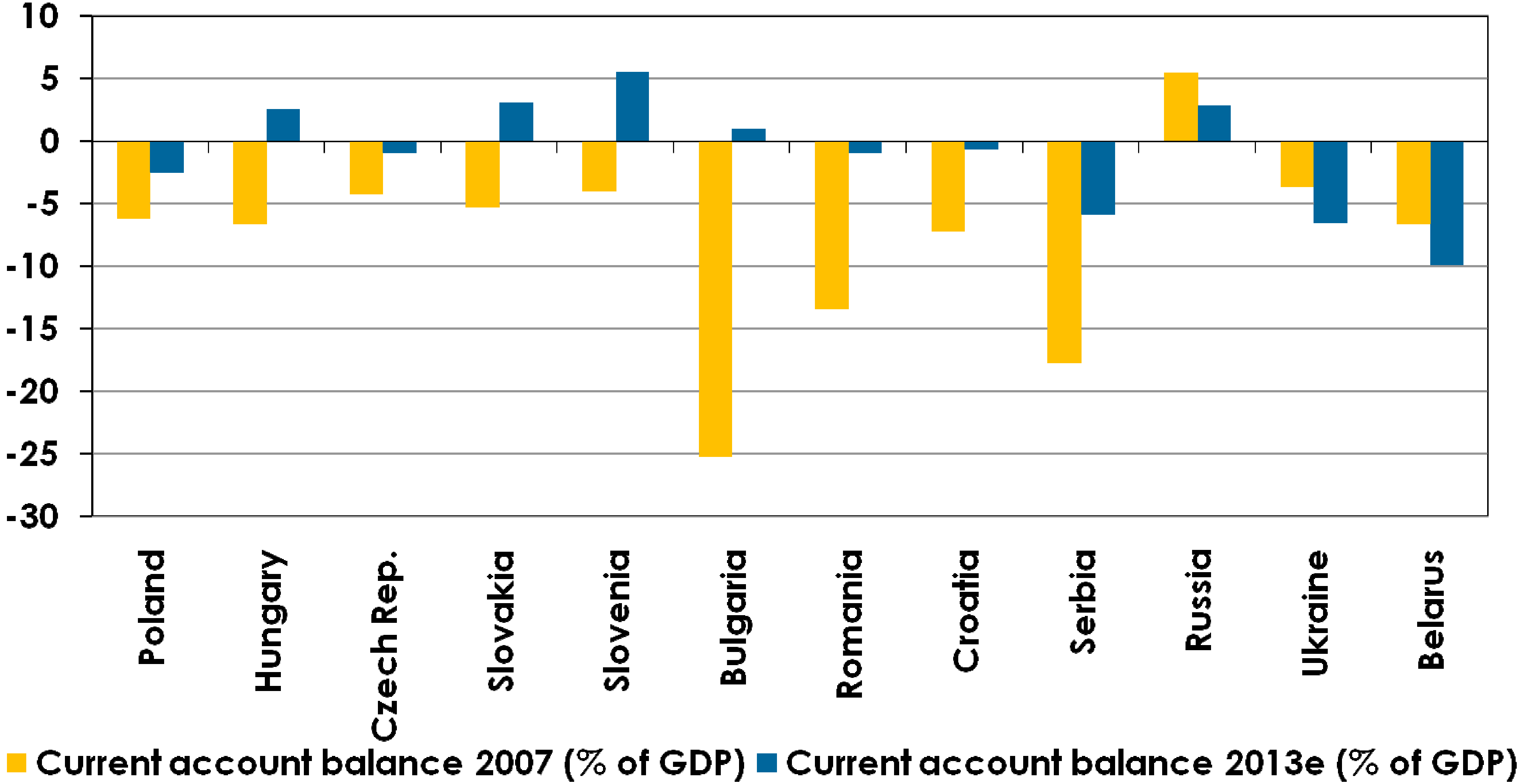
Labour productivity per employee



Indexed: EU-27 = 100
Source: Eurostat, Raiffeisen RESEARCH

CURRENT ACCOUNT BALANCE
Quick adjustment process for some countries

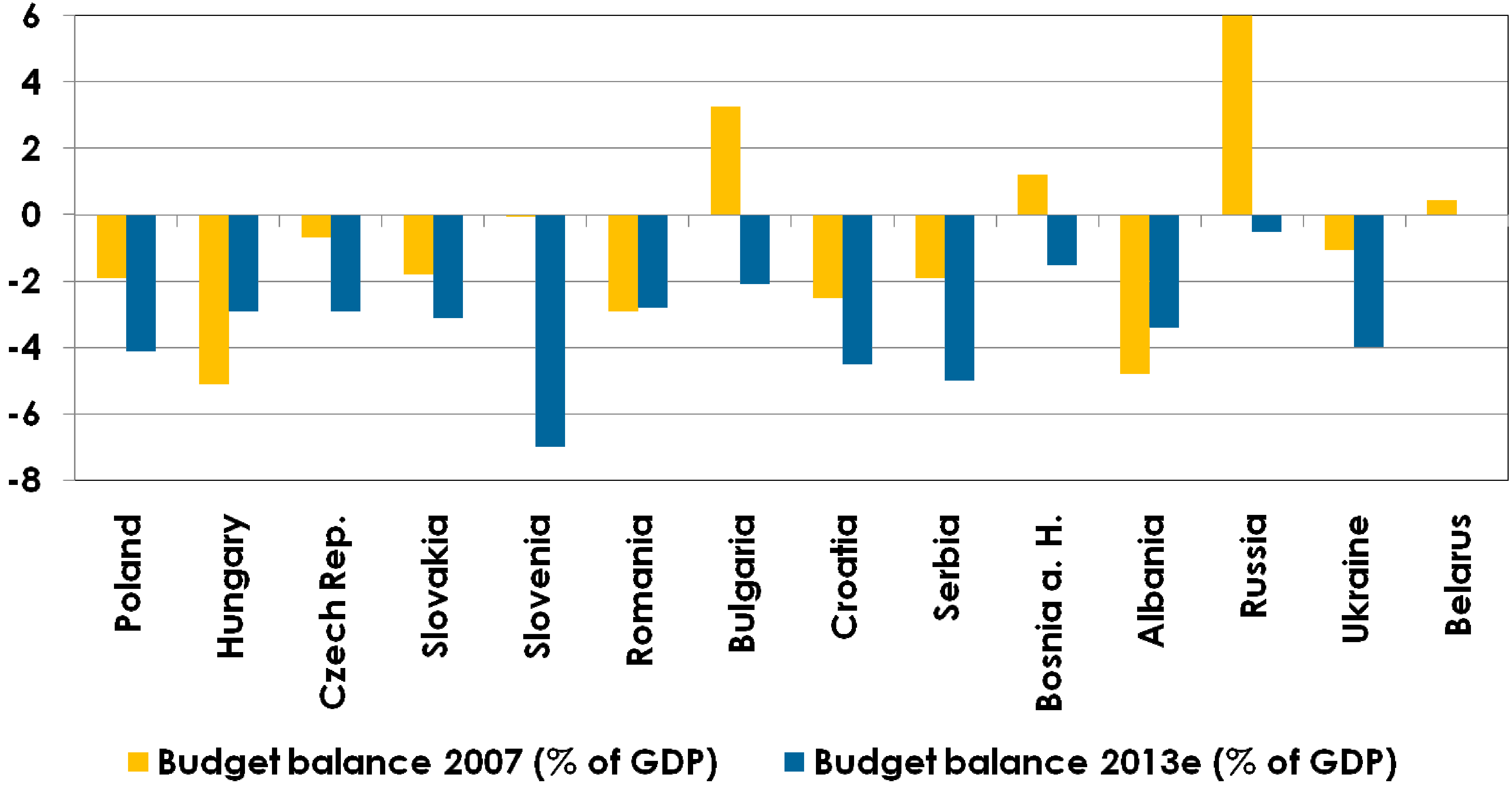
Raiffeisen Bank International



Source: National sources, Raiffeisen RESEARCH

BUDGET BALANCE
Fighting to achieve the 3% criterion

Raiffeisen Bank International

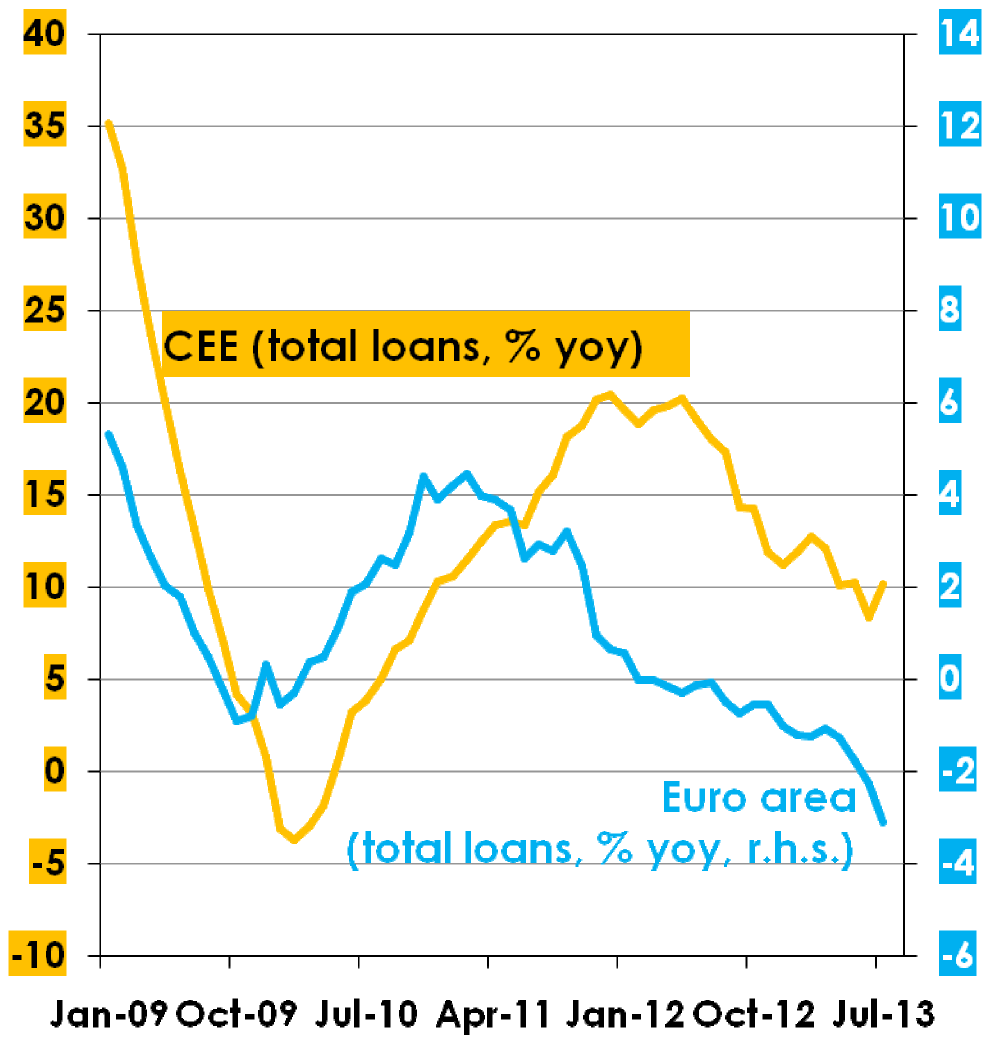


Source: National sources, Raiffeisen RESEARCH

CEE BANKING SECTOR
Not as bad as in Western Europe

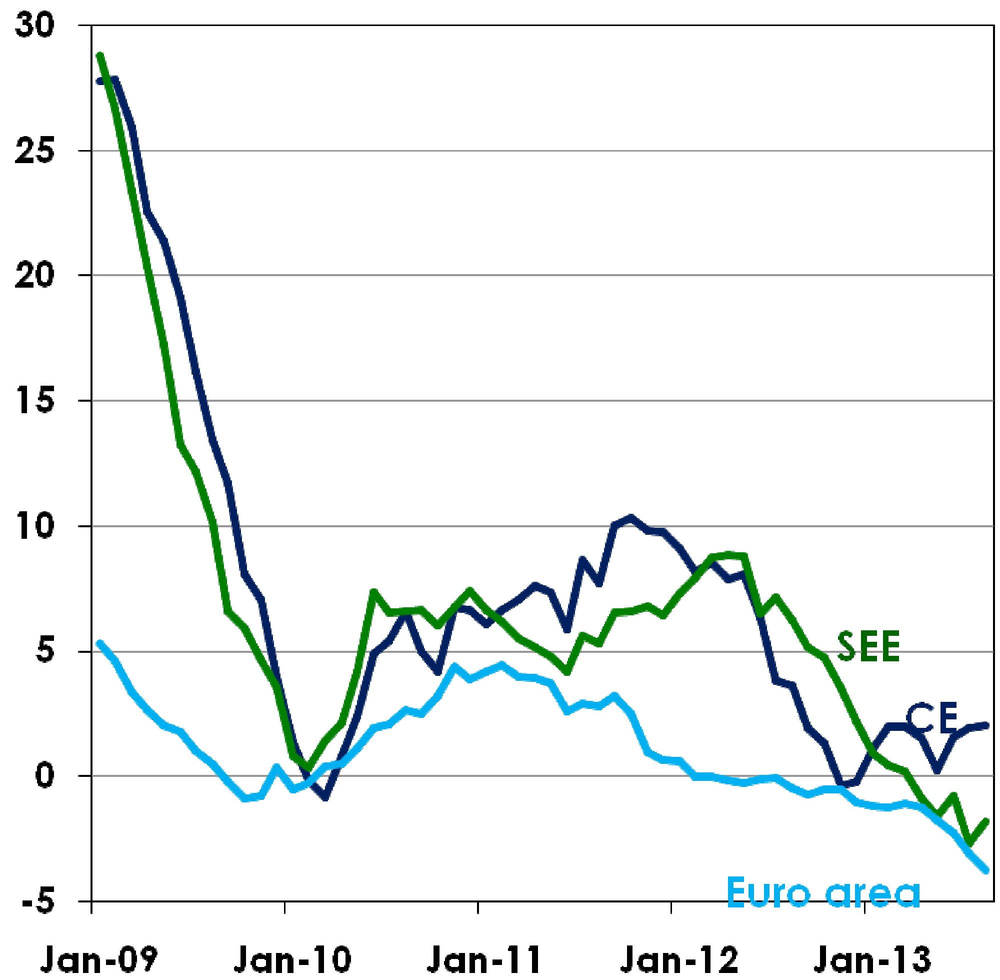
Raiffeisen Bank International

CEE vs. EA loan growth (% yoy)



Source: National Sources, ECB, Raiffeisen RESEARCH

CE/SEE loan growth (% yoy)

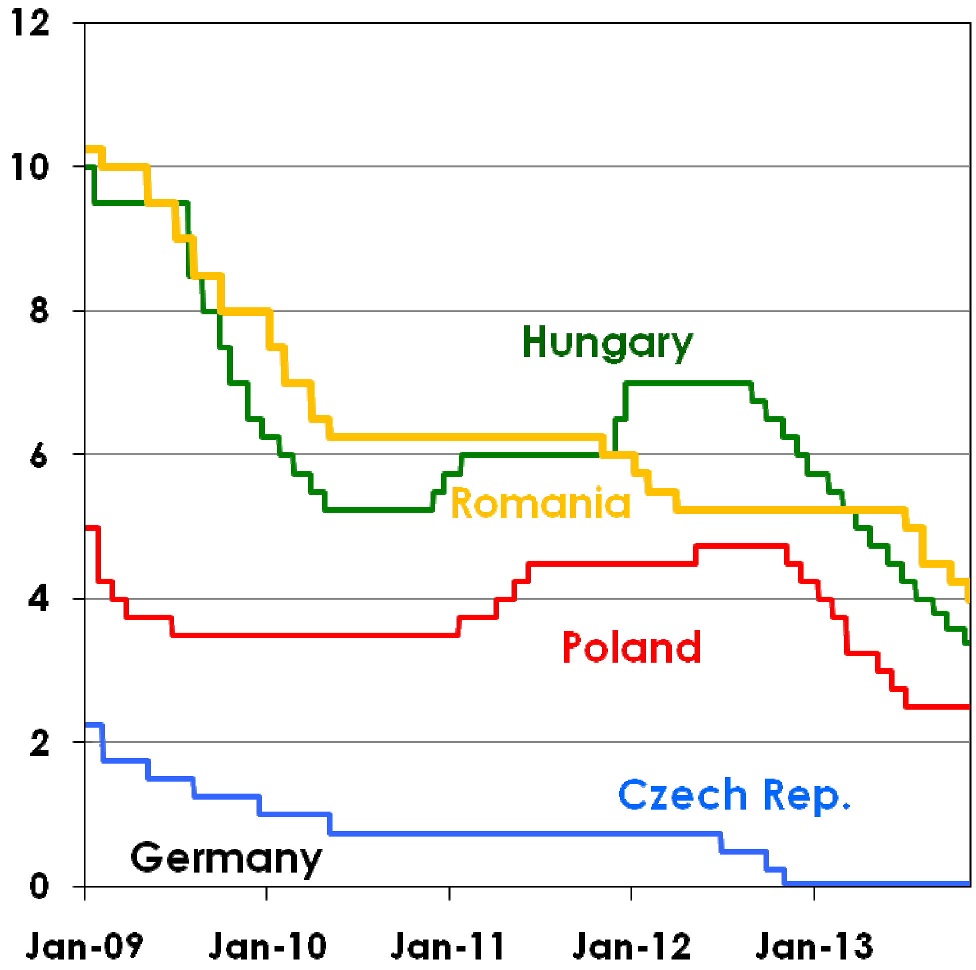


Source: National Sources, ECB, Raiffeisen RESEARCH

CEE: KEY RATE & FX FORECASTS

Raiffeisen Bank International

Key rates major CEE markets (%)



Source: Bloomberg, Raiffeisen RESEARCH

Exchange rate forecasts

vs. EUR	8 Nov*	Mar-14	Dec-14
Poland	4.18	4.10	4.00
Hungary	296	305	305
Czech Rep.	27.0	27.0	26.0
Romania	4.44	4.45	4.45
Croatia	7.62	7.57	7.55
Serbia	114	113	115
Albania	140	140	139
Russia	43.7	42.5	43.7
Ukraine	11.0	10.7	11.4
Belarus	12,449	13,500	15,900

vs. USD	8 Nov*	Mar-14	Dec-14
Russia	32.6	32.5	33.3
Ukraine	8.20	8.2	8.7
Belarus	9,250	10,300	12,100

** 08 November 2013; 14:07 CET*

Focus on CEE Equity Markets

Stefan Maxian, Chief Analyst Raiffeisen Centrobank

Bucharest, 15 November 2013

Raiffeisen RESEARCH

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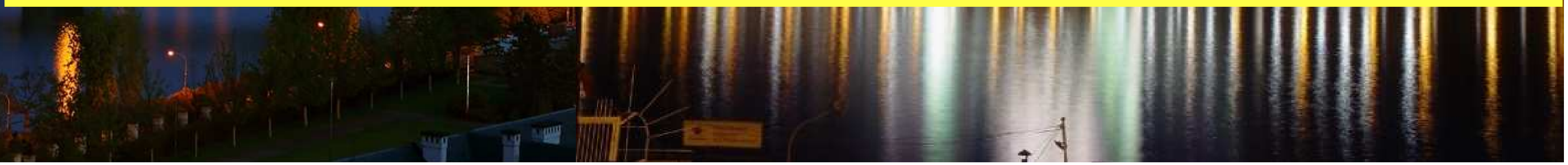
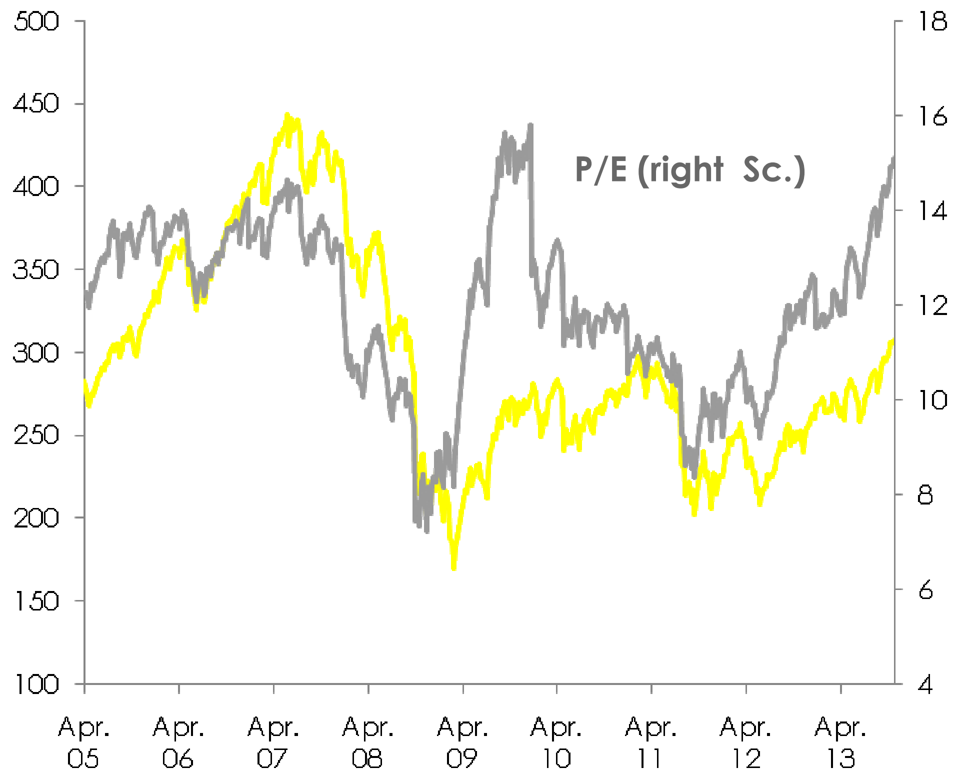


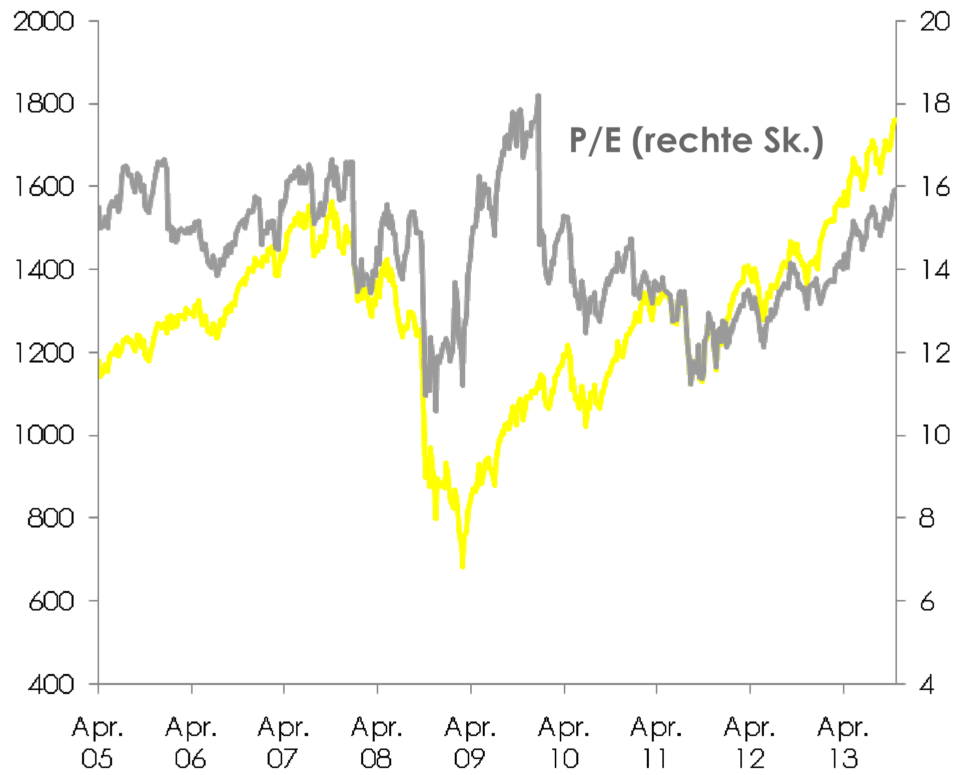
Valuation vs. index performance
Euro area and USA

Raiffeisen Bank International

Euro area (EuroStoxx): Indexperformance & P/E



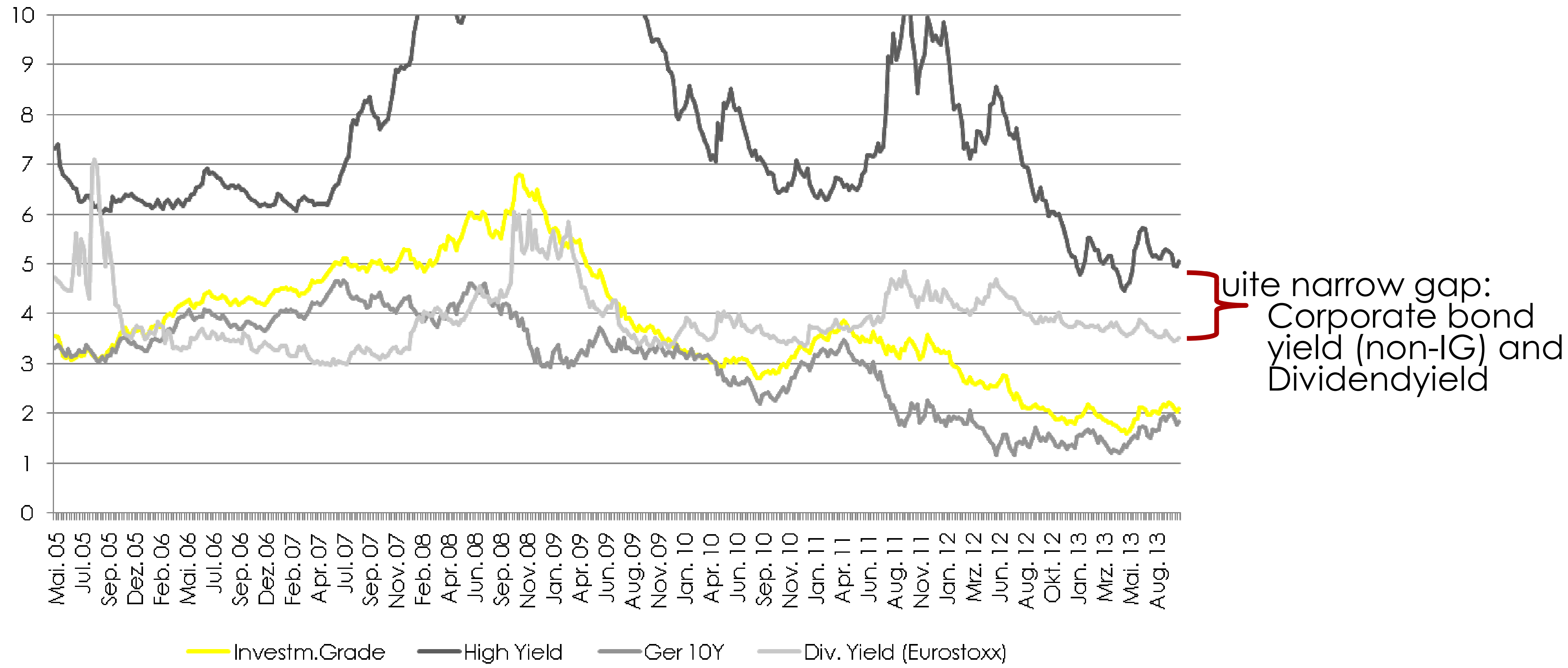
USA (S&P 500): Indexperformance & P/E



Source: Bloomberg, Raiffeisen Centrobank

Bond yields vs. dividend yields support our positive stance towards equities

Raiffeisen Bank International

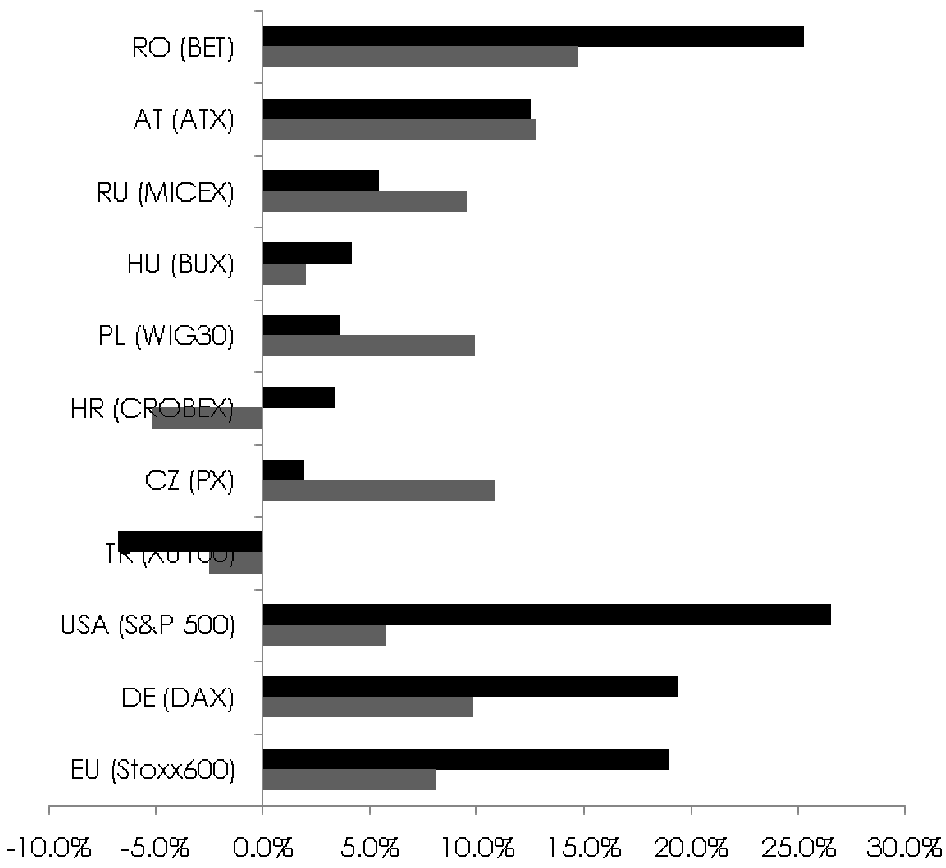


Source: Bloomberg, Raiffeisen Research

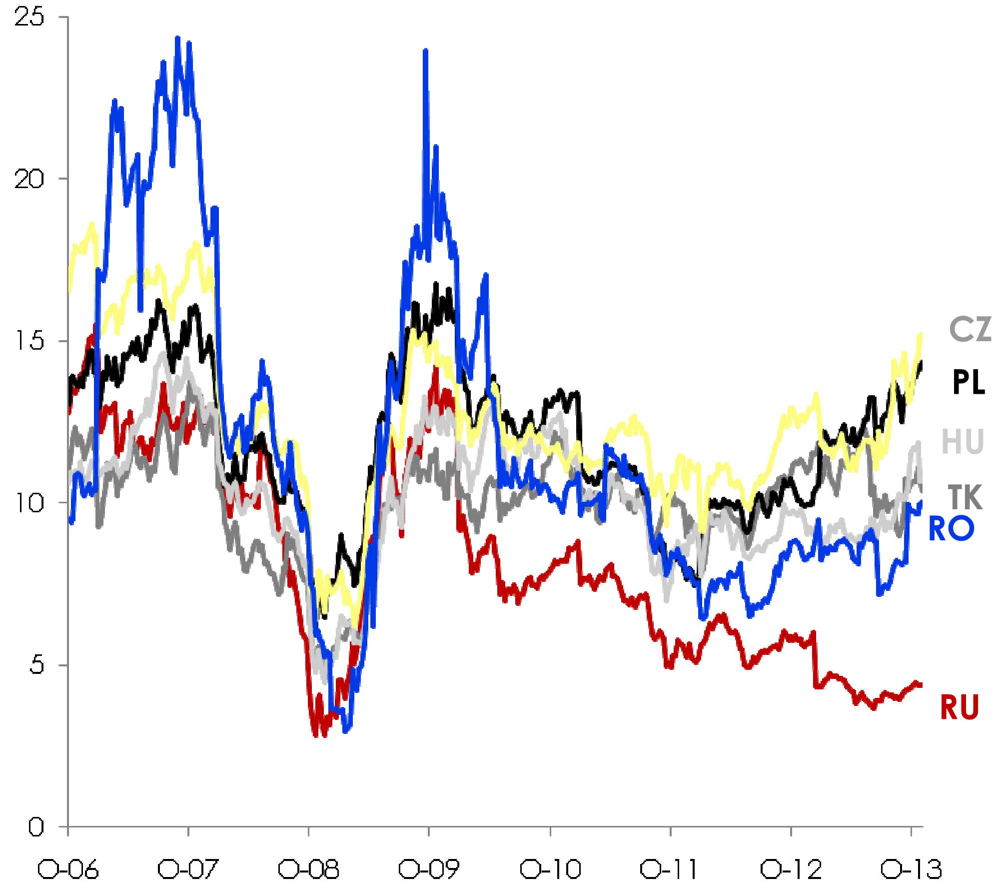
Not all CEE equity markets underperformed developed markets ytd.

Raiffeisen Bank International

Index Performance



Index valuation (P/E 12m forward)



Source: Bloomberg, Raiffeisen Centrobank

Valuation vs. interest rate level gives a different perspective also in CEE

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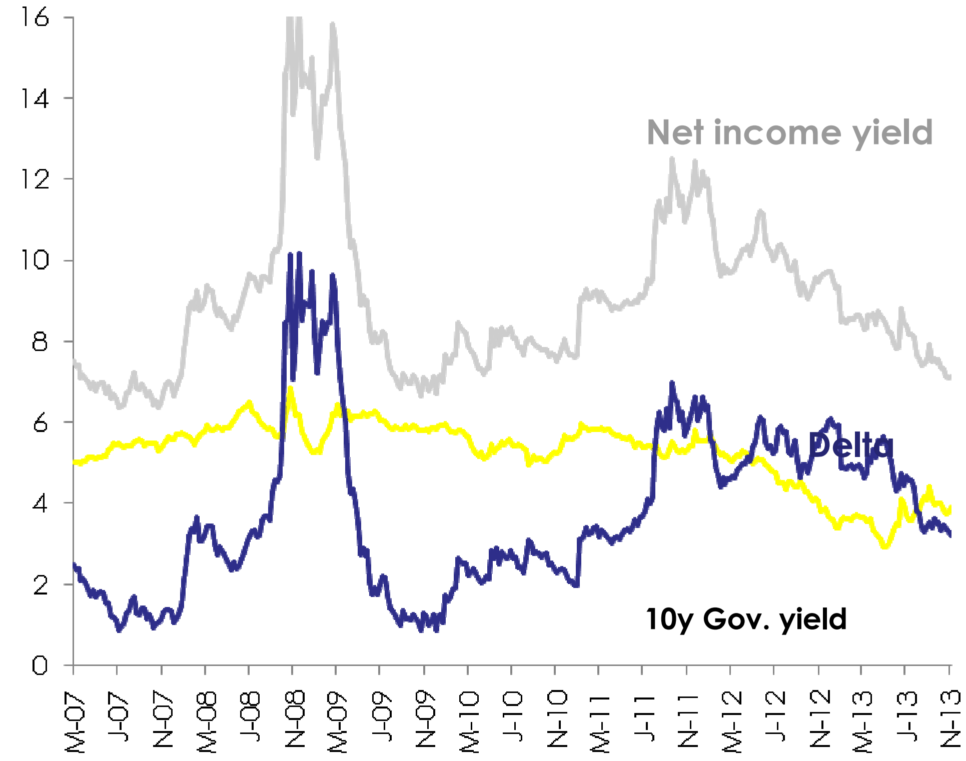
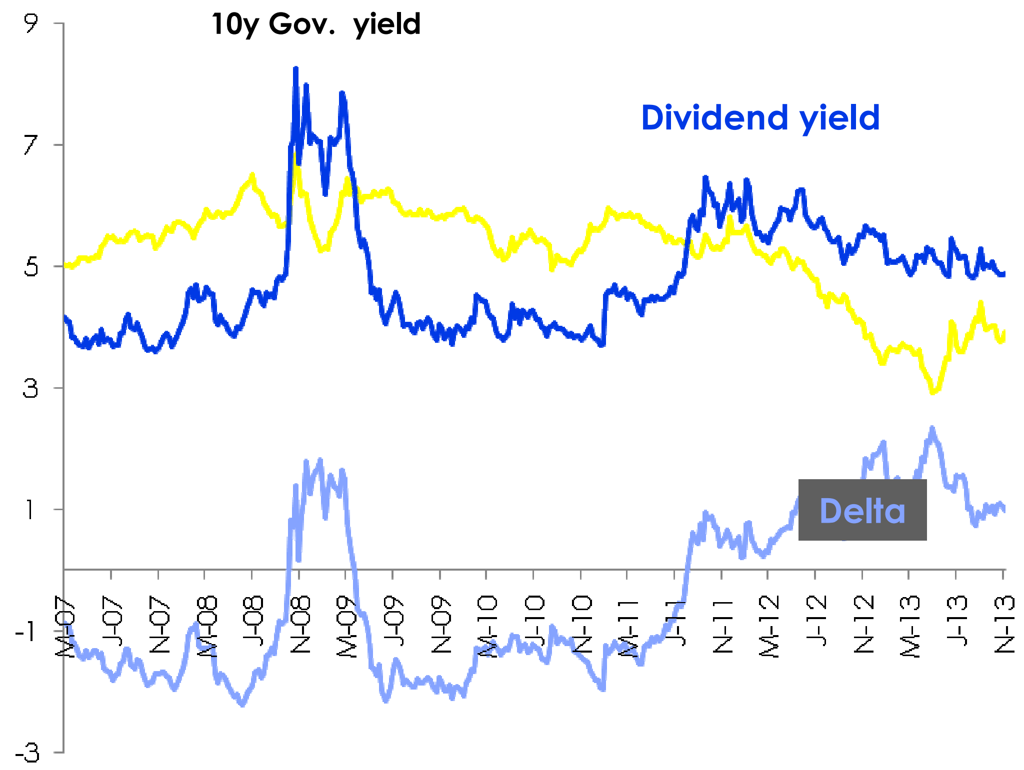
CECE Index: Net income yield vs. government yield



Source: Bloomberg, Raiffeisen Centrobank

CECE Index: Dividend yield vs. government yield

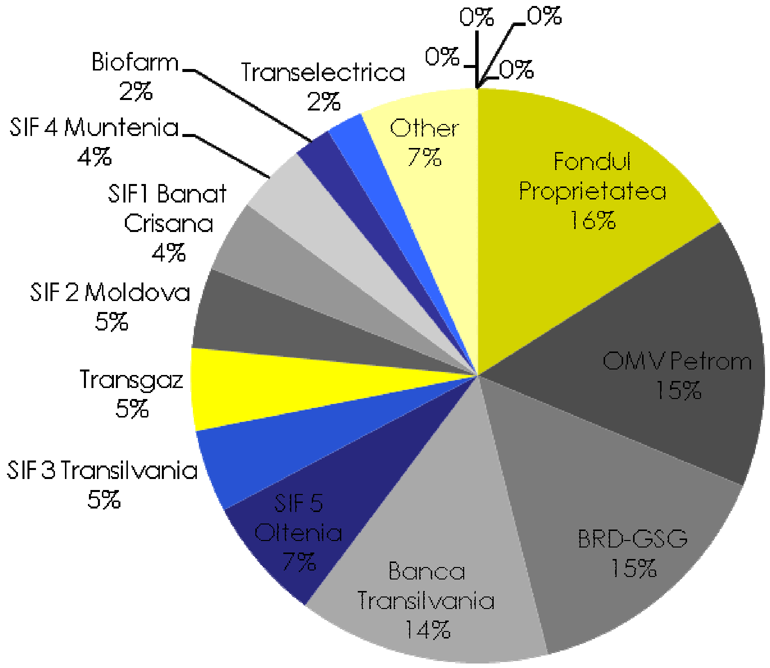


Romanian Equity Market
Market drivers and risks

Raiffeisen RESEARCH

- The **privatization program** brought back local equities on investors' screens
- The **low interest rates** environment has raised the appeal of equities
- Romania's **economic expansion** (excl. agriculture) should accelerate in 2014
- Large exposure of listed companies on the **energy sector** which is in process of deregulation
- **Loan growth** to return in positive territory in 2014 driven by corporate segment - generating upside for local listed banks
- Improved **corporate governance** standards
- **Low liquidity**
- Unpredictable **fiscal regime**
- Renewed concerns regarding **emerging markets** might as well dampen interest in local market
- Large percentage of state owned companies on the market exposed to **regulatory and political risk**
- **Valuation**: P/E (12m forward): 9.9x, div. yield: 2.4%

BET-XT Index composition



Romanian Equity Market
Our current „buy“ recommendations

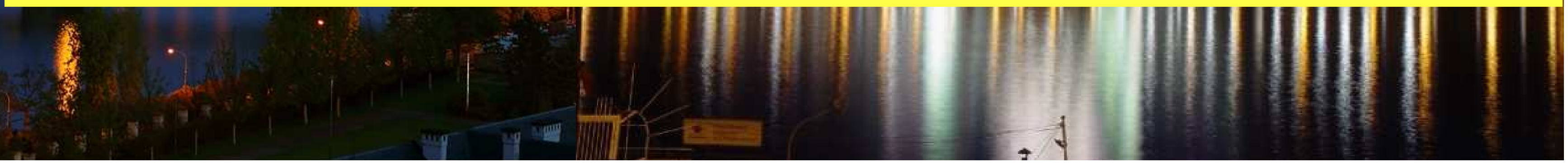
OMV Petrom *Buy, TP U.R. (RON 0.52)*	☐ Domestic gas price liberalisation should have a positive contribution to profits ☐ Refining margins might improve further after the refinery modernization ☐ Upside potential from off-shore exploration ☐ Attractive dividend yield (>7%)
Fondul Proprietatea *Buy, TP: RON 0.89*	☐ Exposure to liberalisation of gas and power markets ☐ Strong incentives for the fund manager to lower the discount to NAV and heighten the market price ☐ Focus on returning cash to shareholders
BRD-GSG *Buy, TP: RON 10.35*	☐ Net profit is expected to rebound in 2014 on the back of lower CoR ☐ Central Bank has hinted to cutting RMO starting next year ☐ The consolidation of the banking system should continue

Romania: Macroeconomic Overview

Ionut Dumitru, Head of Local Research Raiffeisen Bank S.A.

Bucharest, 15 November 2013

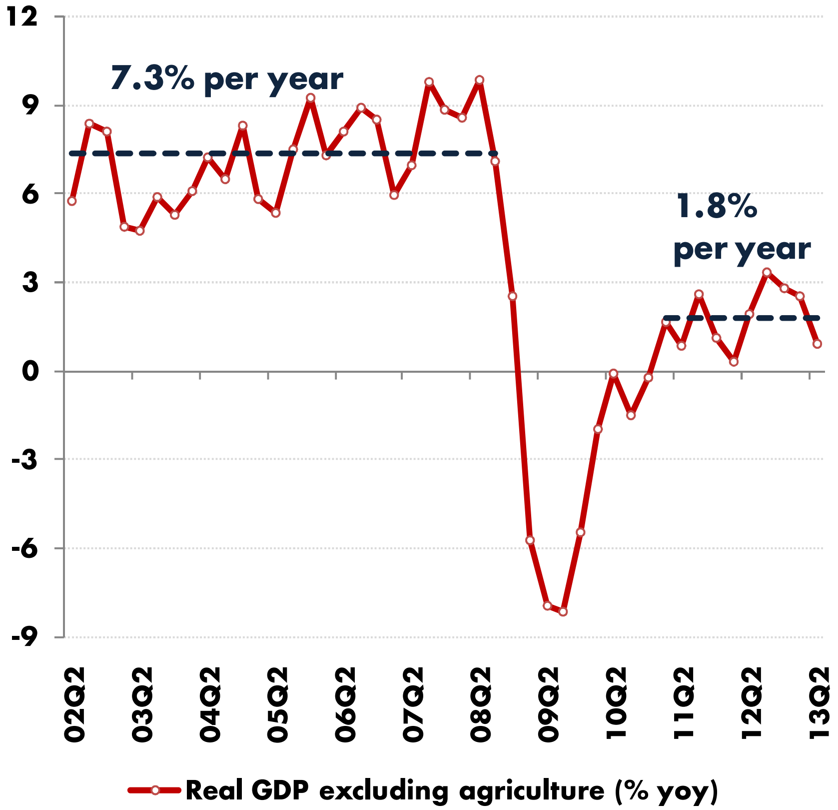
Raiffeisen RESEARCH Raiffeisen Bank International

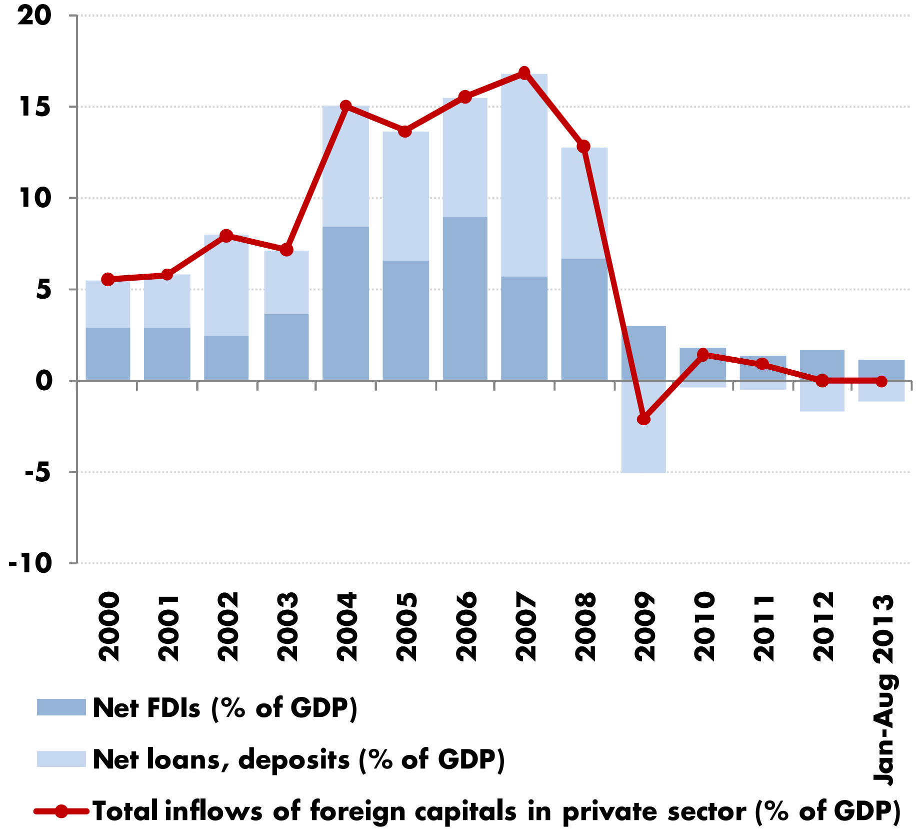


Growing, but slowly

Raiffeisen Bank International

- While flooded with foreign capitals before 2008, the economy had to face harsh conditions of insignificant inflows in the subsequent years (2009-2013). Both net FDIs and net foreign credits to local companies and banks are now at a low level.
- Economic growth has remained modest in absence of significant foreign capital inflows in the private sector (FDIs, loans).





Source: Eurostat, National Bank of Romania, Raiffeisen RESEARCH

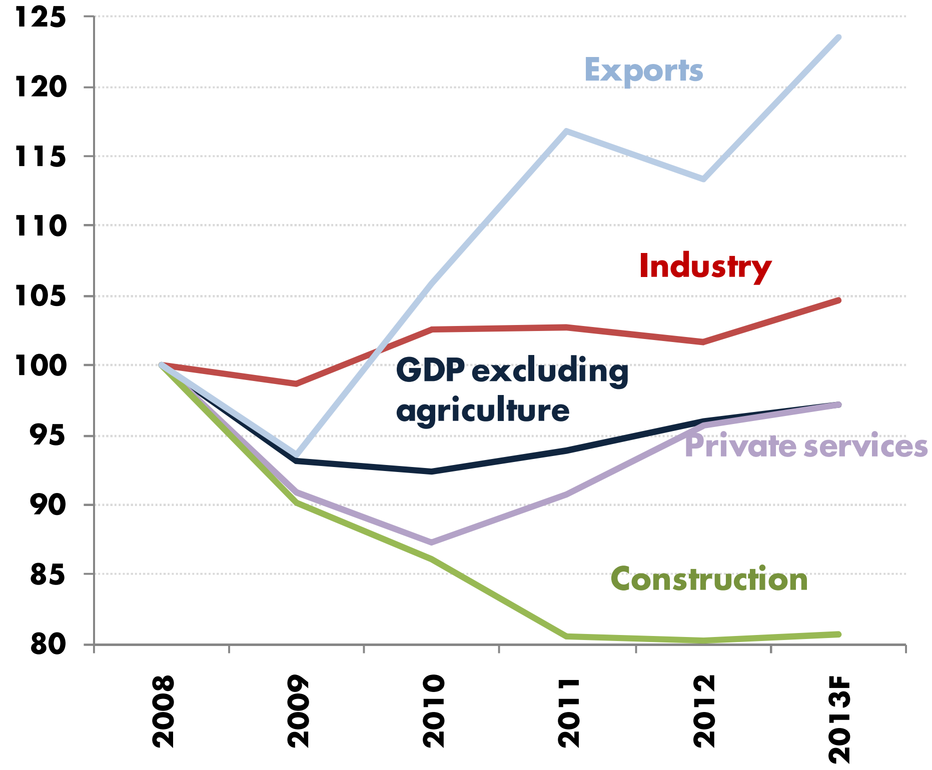
Note: net inflows of foreign private capitals, excluding portfolio inflows

Good performance for export driven sectors

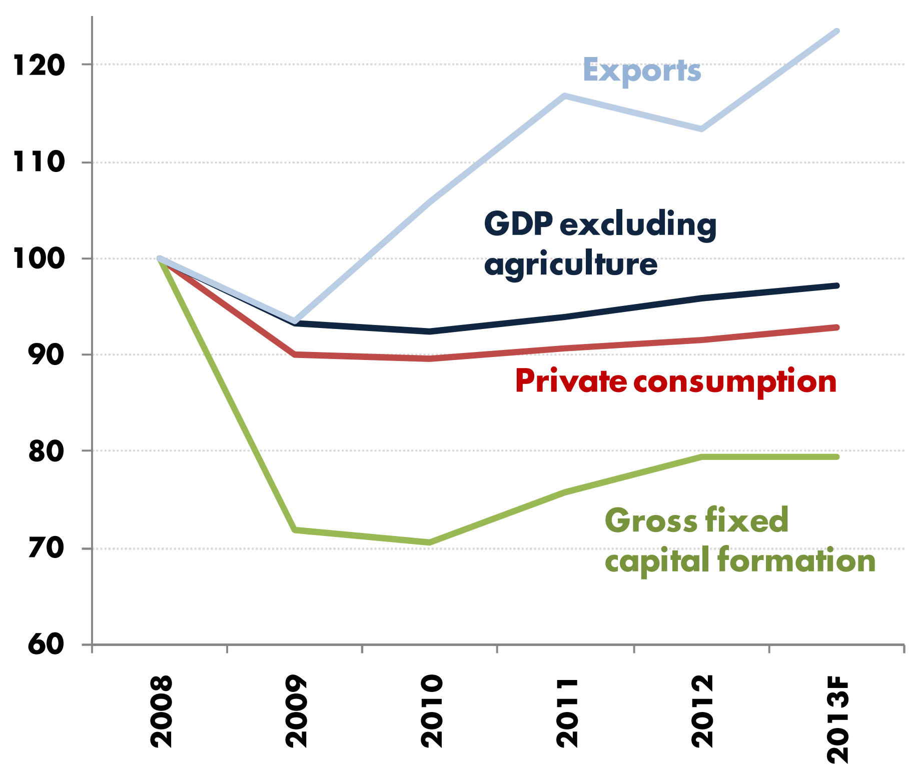
Raiffeisen Bank International

- Exports and industry had the best performance over the past years. Especially exports of automotive industry (motor passenger cars and parts and accessories for transport means) had an impressive performance.
- Sectors relying on domestic demand suffered the most (with construction sector as the most affected)

Gross value added by sectors (2008=100)



GDP and demand (2008=100)

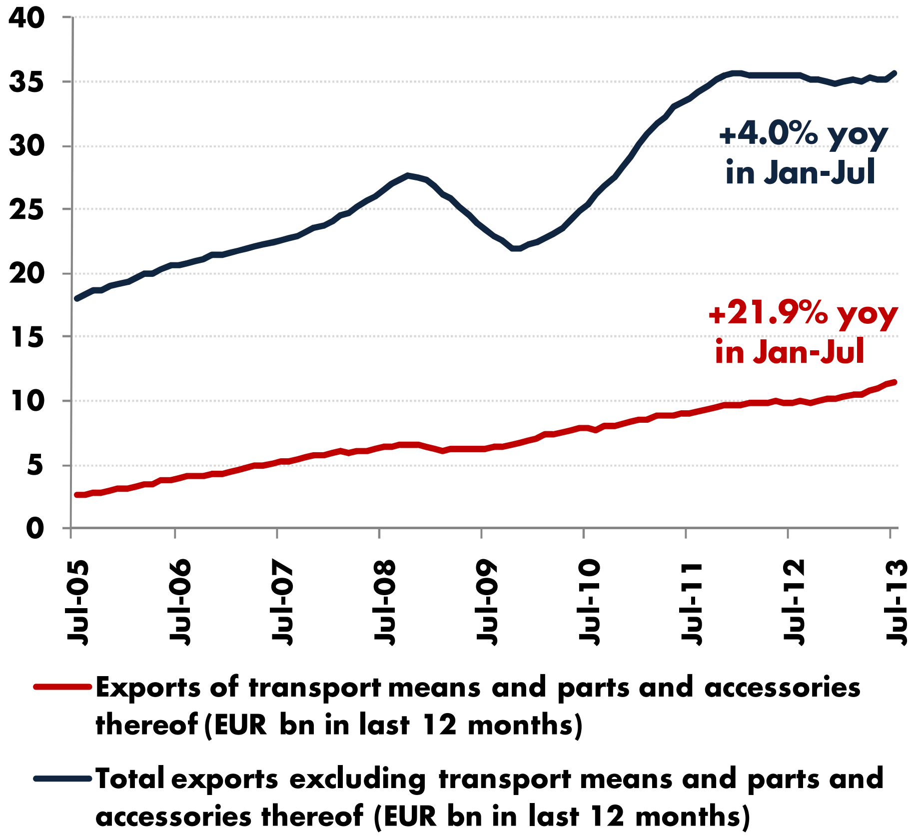


Source: Eurostat, National Institute of Statistics, Raiffeisen RESEARCH

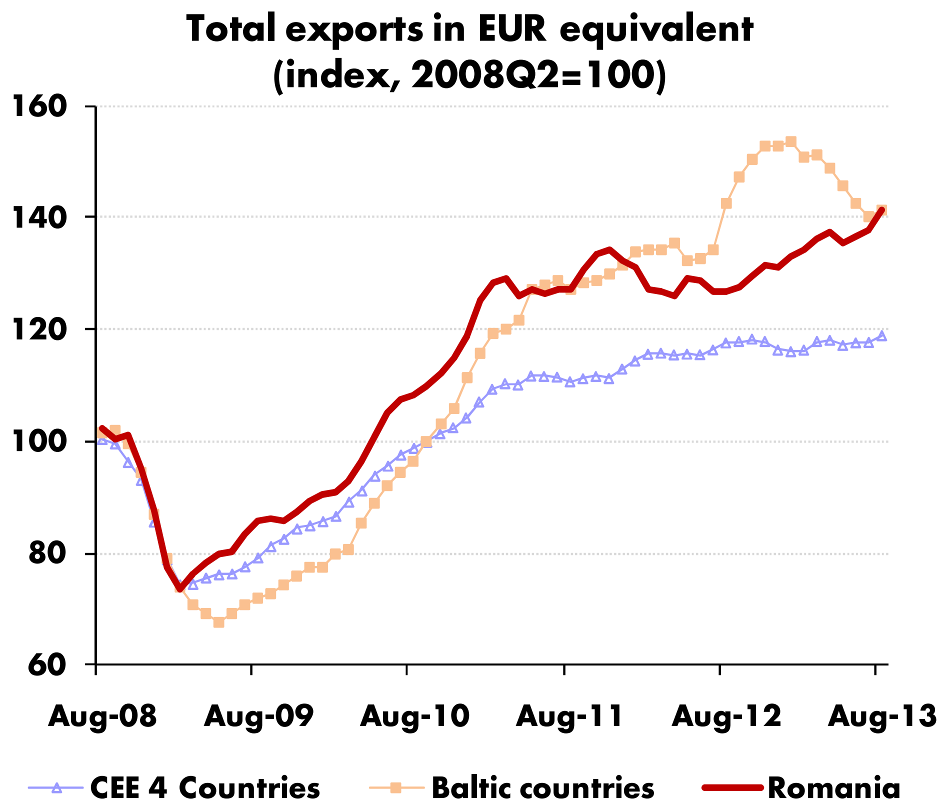
Automotive industry – a success story

Raiffeisen Bank International

- Rapid increase of exports of passenger cars by Renault Dacia on the back of an attractive price and of launch of new models. Also, in 2012 Ford started producing passenger cars.
- A lot of companies export parts and accessories for passenger cars (beside supplying them locally to Dacia – Renault and Ford)



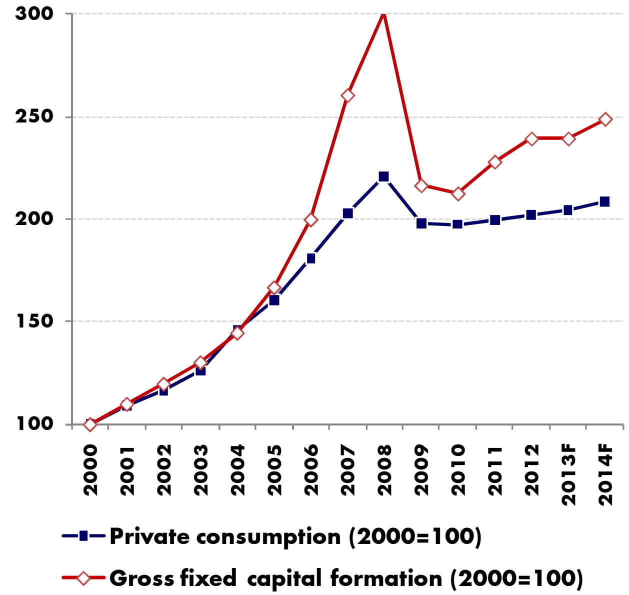
Source: Eurostat, Raiffeisen RESEARCH

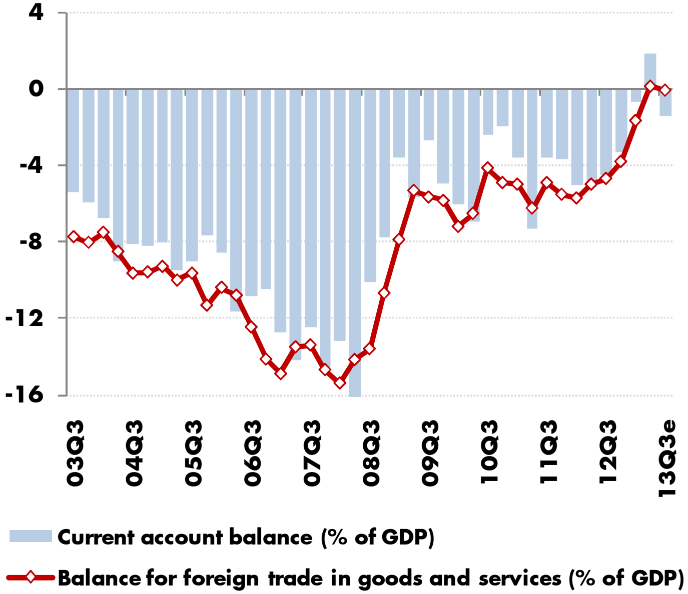


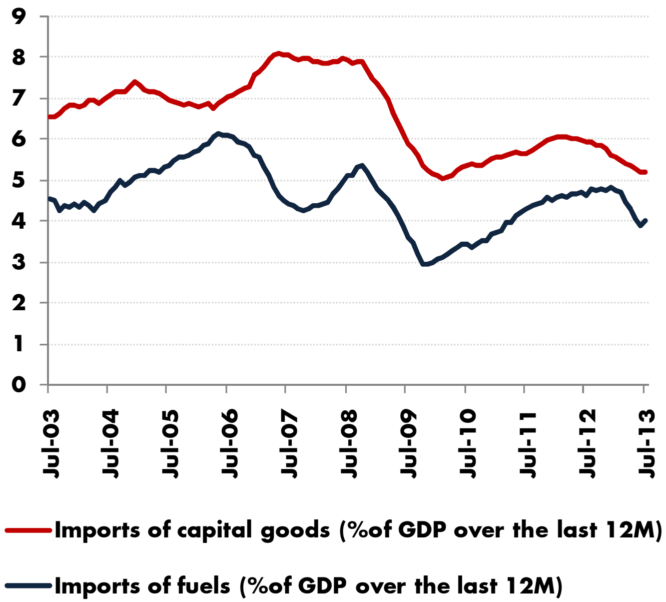
Note: 3-months moving averages

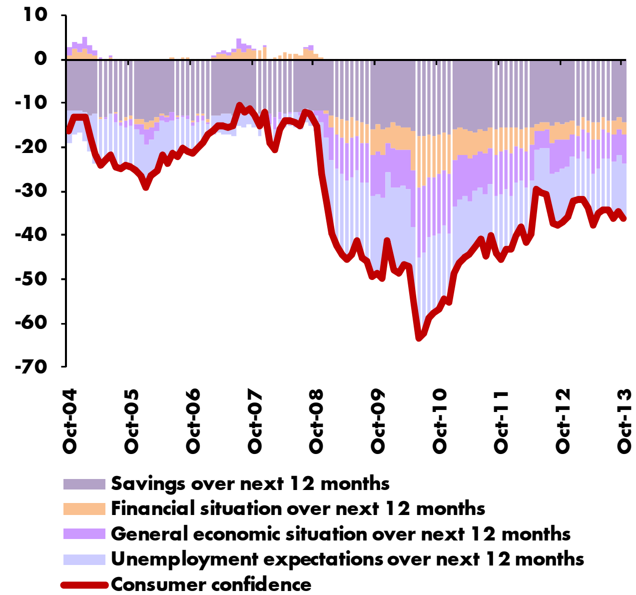
Depressed domestic demand weighs on the speed of economic recovery

Raiffeisen Bank International









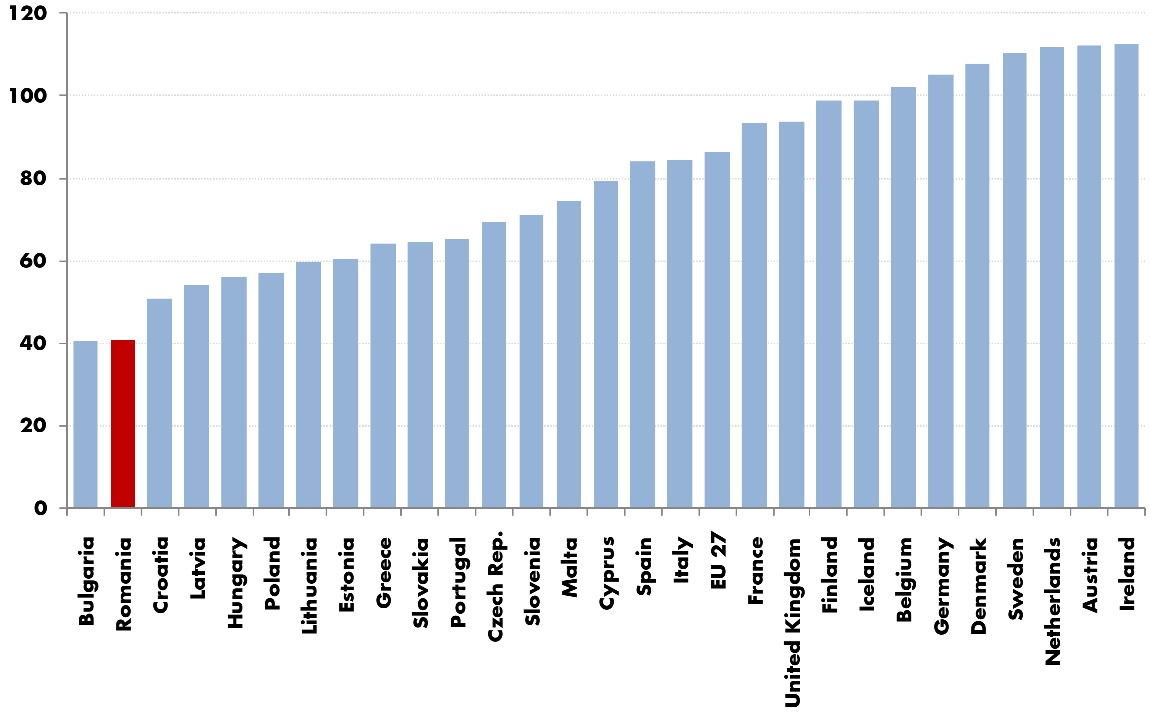
Source: Eurostat, National Bank of Romania, Raiffeisen RESEARCH

How to unlock the high growth potential?

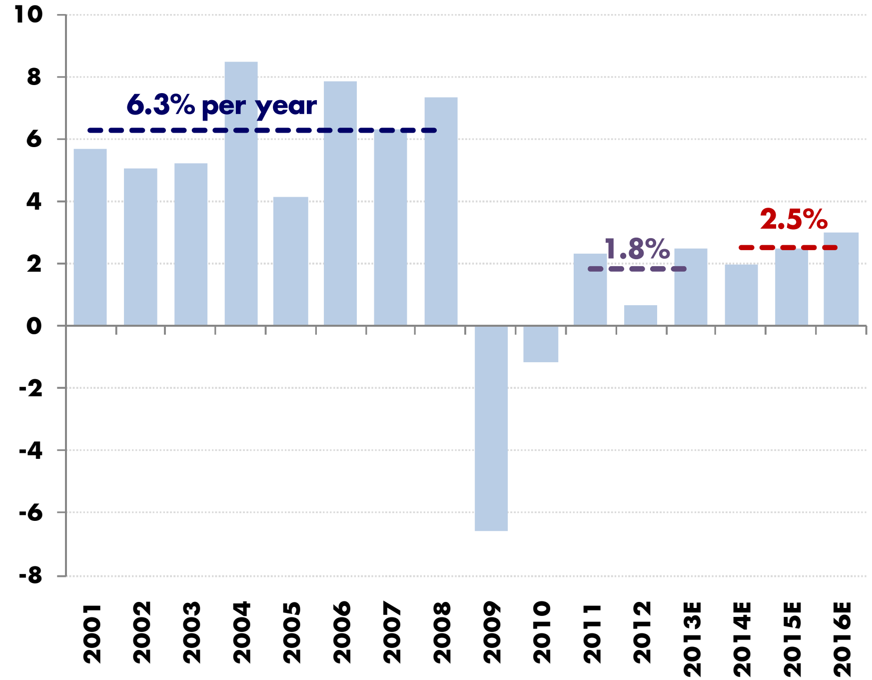
Raiffeisen Bank International

- Still a lot of room for real convergence: low level of economic development suggests faster growth and higher profit opportunities in Romania compared with the other EU developed countries and even compared with other Emerging EU countries.
- So, Romania should remain attractive for foreign investors in the long-term
- While large foreign capital inflows supported fast real converge before the crisis, implementing structural reforms seems to be a requirement to support a faster and much balanced real convergence in the following years.

GDP per capita in PPS in 2012 (% of average for Germany and France)



Real GDP (% yoy)



Source: Eurostat, European Commission, Raiffeisen RESEARCH

Impressive fiscal consolidation

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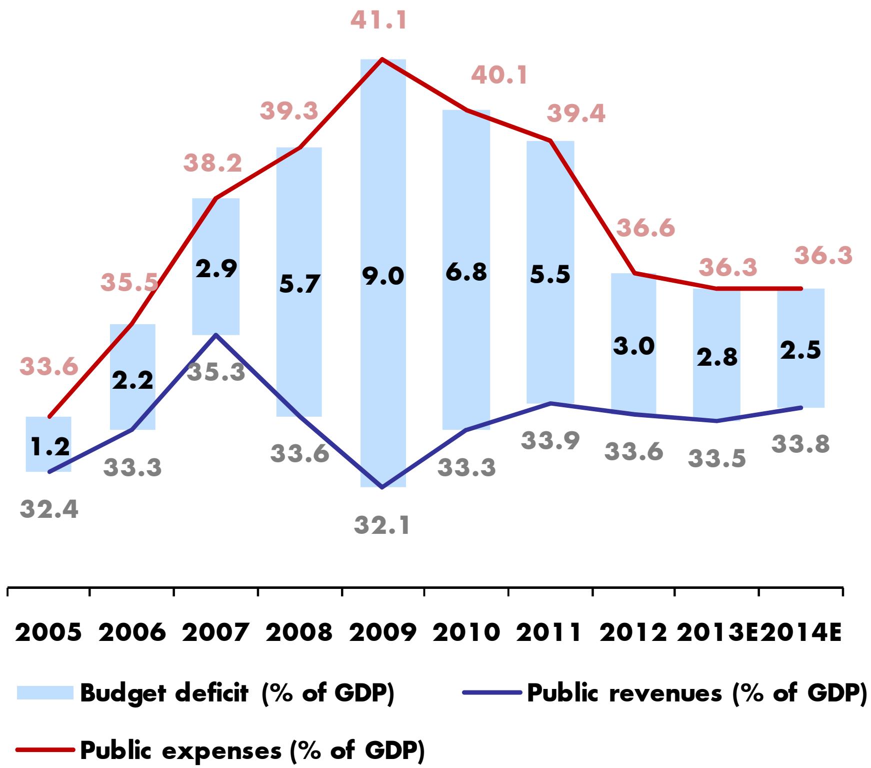
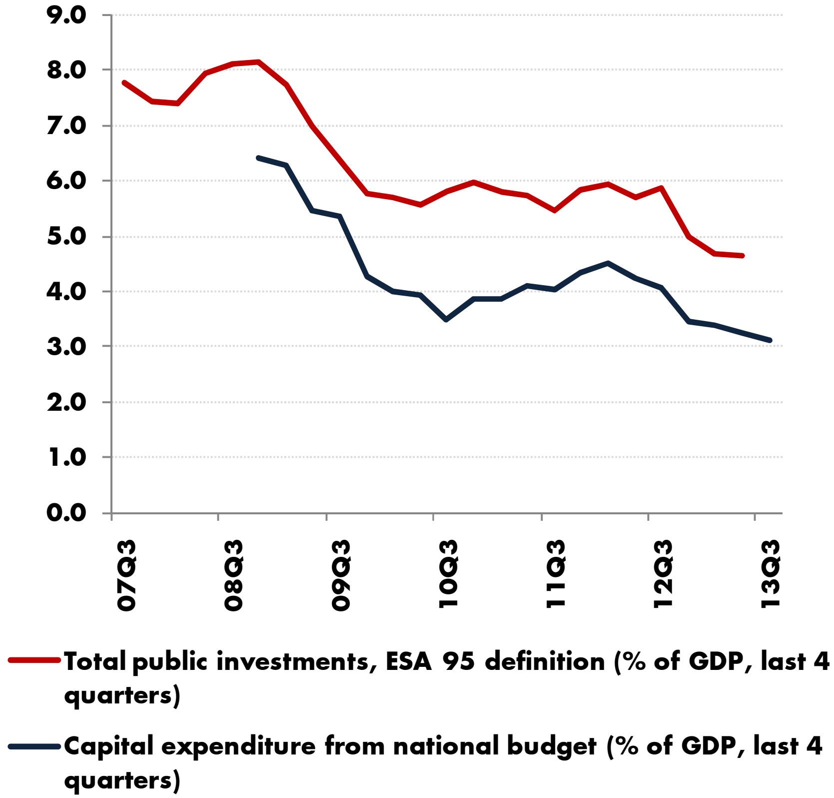
- Fiscal consolidation process was quite fast over the last years ➔ exist of Romania from Excessive Deficit Procedure
- The low budget deficits in 2012 and 2013 were achieved at the expense of reducing public investments. Increase in absorption of EU Structural Funds was also much below the targets. This impedes on improving the potential growth of the economy.
- Budget deficit targets for 2013 and 2014 seems ambitious. We just expect the authorities to avoid major fiscal slippages and to maintain the budget deficit below 3.0% of GDP in ESA 95 terms.



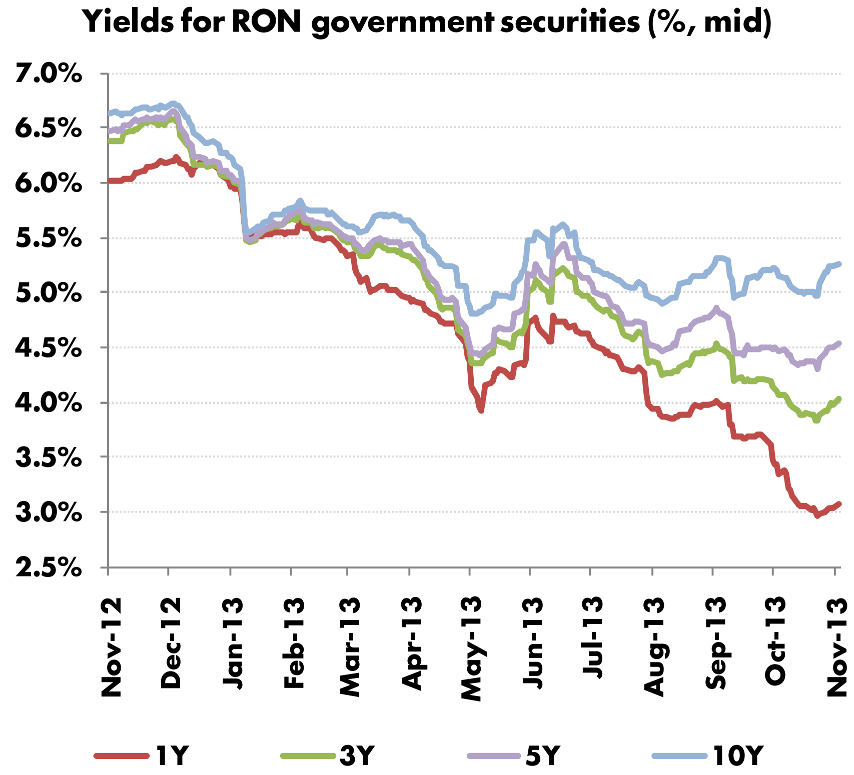


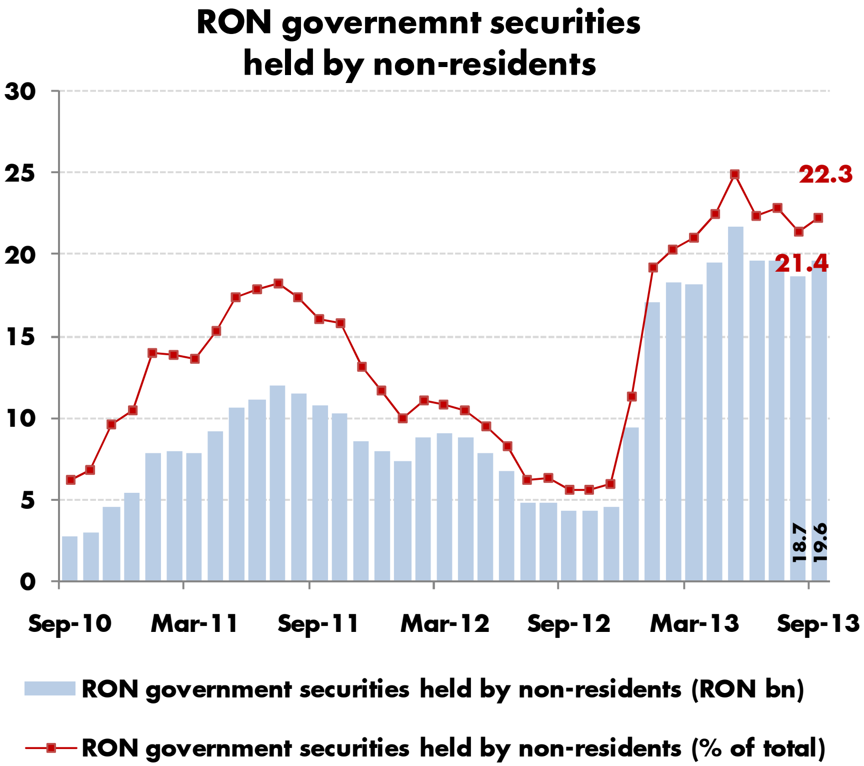
Source: Eurostat, Ministry of Public Finances, Raiffeisen RESEARCH

Macro policies to be closely eyed by investors

Raiffeisen Bank International

- Rapid decline in yields of RON government securities throughout 2014 supported by:
  - Inclusion of these securities in EM local debt indexes by JP Morgan and Barclays
  - Attractive levels of yields and monetary policy easing prospects
  - Prudent macroeconomic policies
- Limited room for additional decreases in RON yields going forward given the expected end of the domestic monetary policy easing cycle and the prospects of tapering by the FED
- Maintaining appropriate macroeconomic policies is a requirement to avoid portfolio outflows



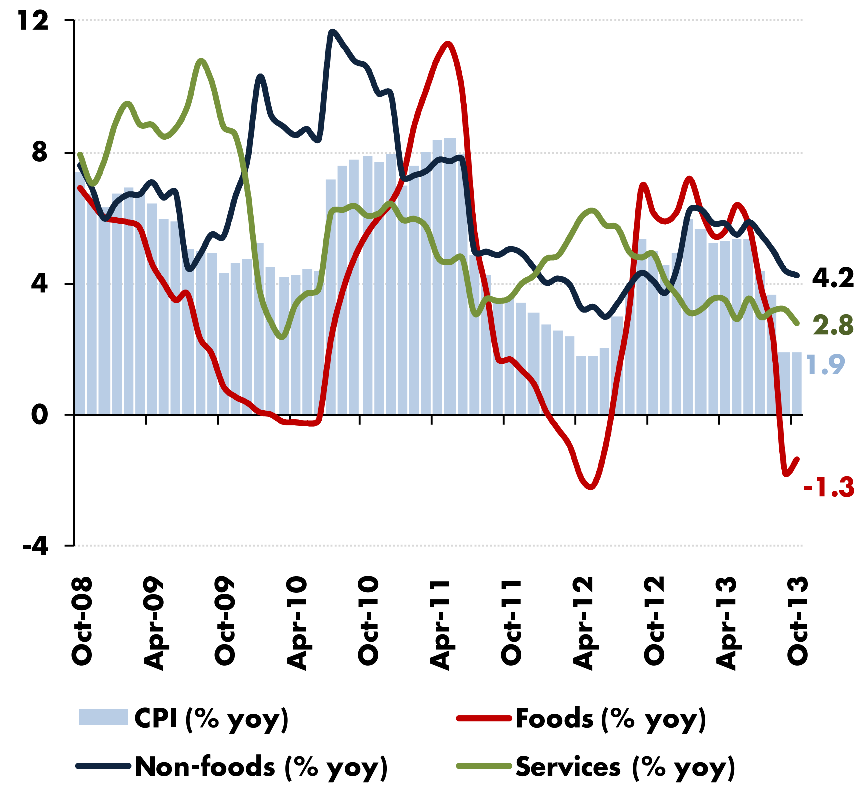


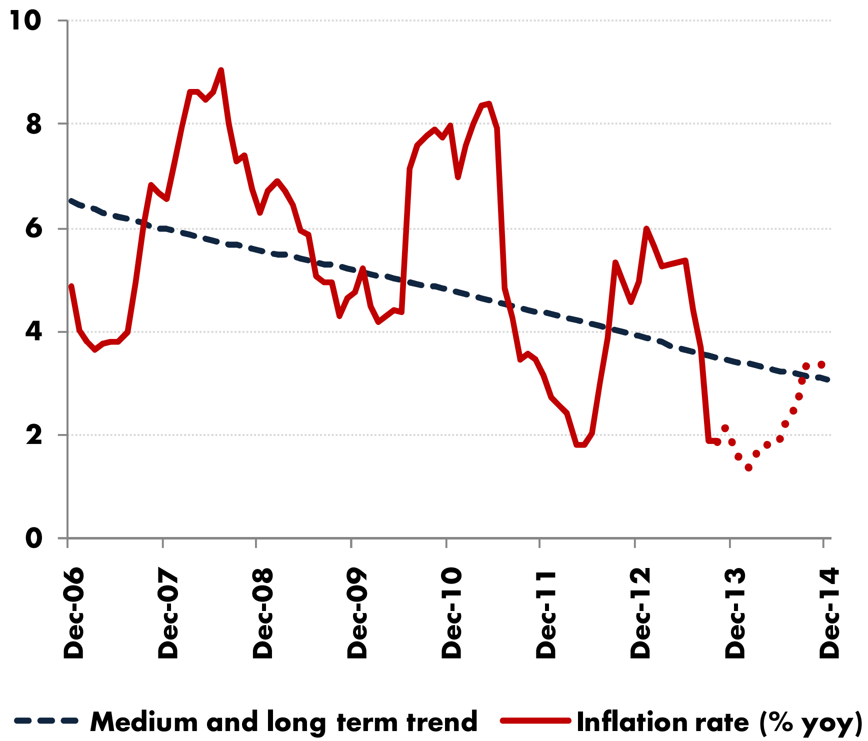
Source: Ministry of Public Finance, National Bank of Romania, Raiffeisen RESEARCH

Low underlying inflationary pressures

Raiffeisen Bank International

- Low underlying pressures as a result of depressed domestic demand and low imported inflation
- Annual inflation rate temporary at very low levels in H1 2014 (favorable statistical base effect, cut in VAT for bread products in September 2013)
- Annual inflation rate to return towards medium-term trend of 3.0% in Q3 2014
- Domestic upside risks to our inflation outlook in 2014: increase in taxes in January 2014, leu depreciation, adverse weather conditions



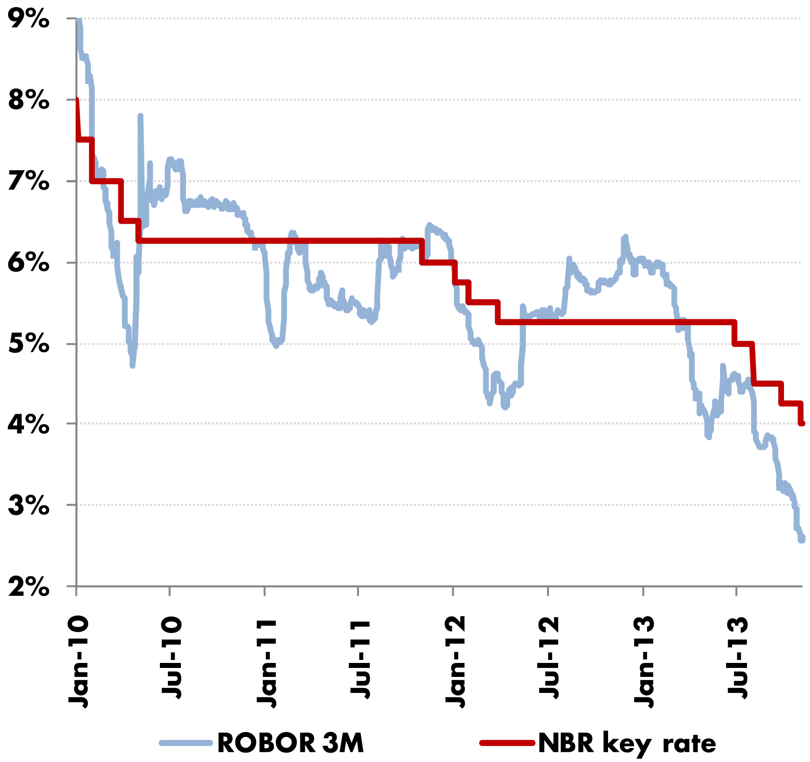


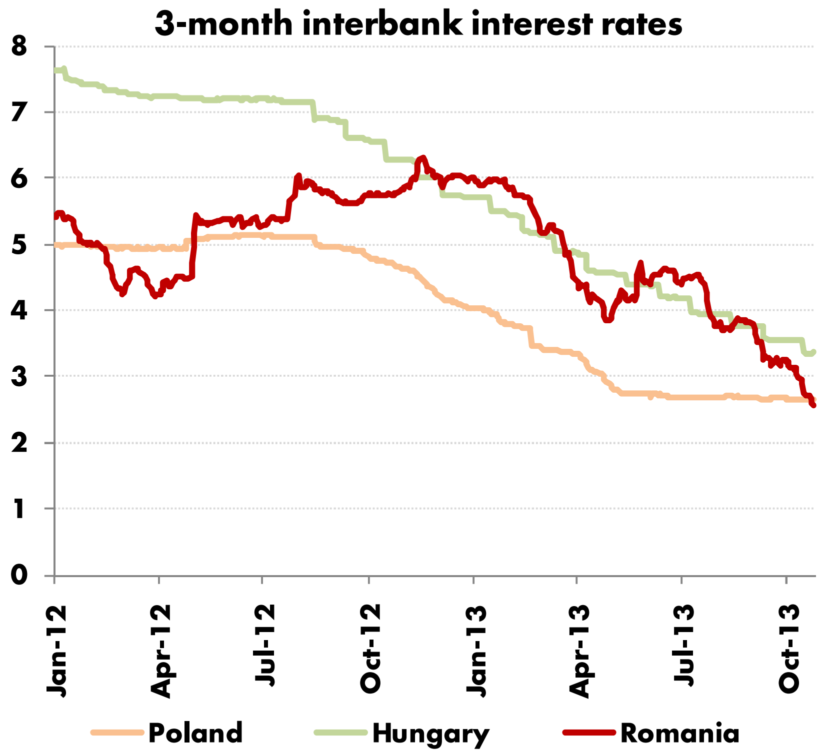
Source: National Institute of Statistics, National Bank of Romania, Raiffeisen RESEARCH

Monetary policy easing under way

Raiffeisen Bank International

- Central bank uses two monetary policy instruments: key interest rate and management of liquidity in the money market
- We see room for the NBR to reduce the key rate towards 3.5% in Q1 2014 (increases in taxes due for January 2014 raises some risks to our call)
- However, due to a liquidity excess in the market the interbank interest rates (ROBOR) are already trading at levels consistent with key rate at less than 4.0%. There are more chances for ROBOR rates to increase than to decrease.





Source: National Bank of Romania, Raiffeisen RESEARCH

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