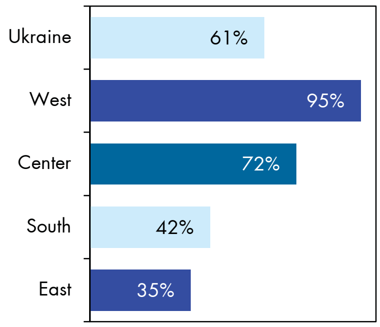
Impact of DCFTA with EU on the Ukrainian economy

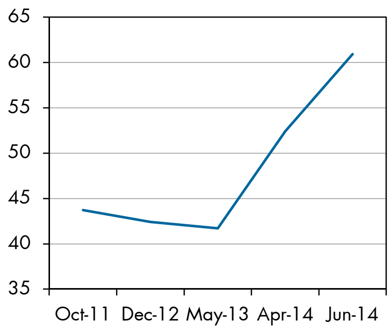
- **Association Agreement with the EU paves the way for large-scale political and economic transformation in Ukraine**
- **Not much short-term effect on trade with the EU is expected after signing the DCFTA (1-2 year horizon)**
- **Over the longer term, trade liberalisation with the EU might boost Ukraine's exports and stimulate FDI inflows**
- **Positive impact of DCFTA conditional on adoption of EU standards and business climate improvement**
- **Risk of Russia retaliation, impact in the short run unlikely to be substantial in reasonable scenarios**

Strong support for EU integration*



** Poll results (Jun-14): Do you support Ukraine's accession to the EU?*
Source: Razumkov Center, Raiffeisen RESEARCH

Support for EU integration*



** % of respondents supporting EU integration*
Source: Razumkov center, Raiffeisen RESEARCH

Financial analysts
Dmytro Sologub, CFA
Raiffeisen Bank Aval JSC, Kiev
dmytro.sologub@aval.ua
Gunter Deuber
gunter.deuber@raiffeisenresearch.at
Andreas Schwabe, CFA
andreas.schwabe@raiffeisenresearch.at

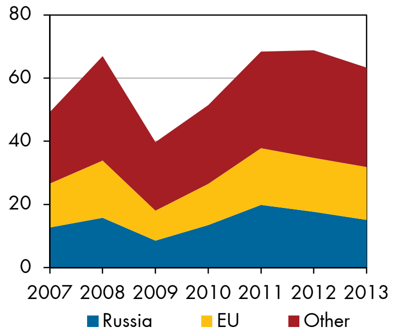
Ukraine signs the DCFTA with the European Union

On 27 June, Ukrainian President Poroschenko signed in Brussels the economic part of the Ukraine–European Union Association Agreement (AA), i.e. the Deep and Comprehensive Free Trade Agreement (DCFTA). As a reminder, the political provisions of the treaty were signed in March of this year. The agreement will come into force upon ratification by the Ukrainian parliament and the national parliaments of the EU countries (the latter might take up to two years). Nevertheless, in de-facto terms the European Union already liberalised trade with Ukraine in April by unilaterally removing duties on Ukrainian imports (this provision will be effective until November 2014). Moreover, the EU envisages temporary application of the DCFTA as soon as the agreement is ratified by the Verkhovna Rada of Ukraine, which is likely to happen within the next few months.

Hence, seven months after the refusal of the Ukrainian authorities to sign an AA, **Ukraine is back on the EU integration path**. In fact, the last minute turnaround by the authorities last November proved lethal for the corrupt, authoritarian regime of President Yanukovych, who was swept away by the Euromaidan protests in February of this year. The Ukraine-EU Association Agreement establishes a political association between the two parties and envisages cooperation and convergence in policies, legislation and regulations in a broad range of areas. In particular, the Ukrainian authorities are committed to implement the set of economic, judicial and financial reforms, aimed at bringing Ukraine's political, economic and social systems in line with (Western) European standards. On the other side, the EU agreed to provide Ukraine with political, administrative and long-term financial support, access to research and knowledge cooperation, and preferential access to EU markets.

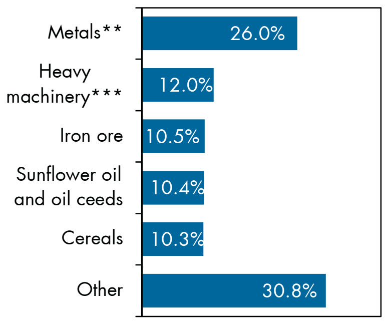
Hence, the signing of the AA with the EU provides the chance for large-scale political and economic transformation in Ukraine. In particular, the **Ukraine-EU DCFTA functions as a major cornerstone for economic integration between Ukraine and EU**. The free trade agreement envisages **liberalisation of trade in goods and services, and capital flows, harmonisation of legislation and standards in the energy sector, financial services, telecommunications, postal and transport services and other sectors of the economy**. Most import and export duties and export subsidies are removed immediately. At the same time, several sectors were granted a transition period (of up to 10 years) for the gradual removal of import tariffs, while the parties might still resort to the use of non-tariff barriers (such as import quotas).

Structure of Ukraine's goods` export *



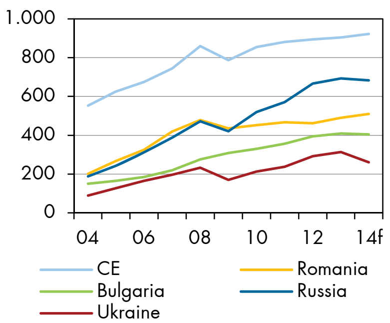
** in USD bn*
Source: State Statistics Service

UA: Export structure to the EU*



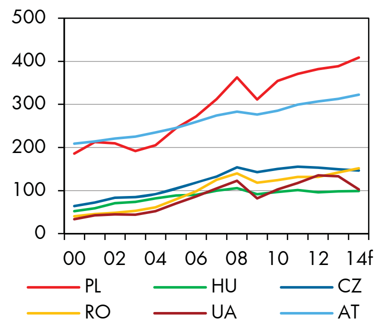
** end 2013*
*** including steel products*
**** nuclear reactors, boilers and electric machinery*
Source: State Statistics Service, Raiffeisen RESEARCH

Average monthly gross wages (EUR)



Source: national sources, Raiffeisen RESEARCH

Nominal GDP (EUR bn)



Source: national sources, Raiffeisen RESEARCH

Impact of the DCFTA on the Ukrainian economy

There are widely differing opinions regarding the potential impact of the DCFTA on the Ukrainian economy, quite often with strong political undertones. In particular, the supporters of Eurasian integration, who would rather see Ukraine join the Russian-led Customs Union, claimed that the Ukrainian economy will totally collapse in case of DCFTA signing, since the local market will be immediately flooded by cheap imports from the EU, while Ukraine will not get access to the European markets due to the incompatible standards and regulations (adoption of which would cost Ukraine dozens billions of dollars). These arguments, obviously, have not much to do with reality as Ukraine's local market remains protected even after DCFTA signing, given the gradual phasing out of customs duties in the most sensitive sectors (such as car-making) and continued application of non-tariff measures. Also, anecdotal evidence suggests that Ukrainian producers already started to adapt to EU regulations quite some time ago (especially in segments such as dairy and meat products).

On the other side, **the hopes of an immediate jump in prosperity, following the signing of the agreement, are also groundless**. And in the wider CEE space there are country examples like Croatia, Bulgaria or Hungary showing that possible positive EU-integration effects (that are visible in some other CEE countries like Poland, the Czech Republic or Slovakia) might be counterbalanced by challenging domestic conditions (e.g. in terms of structural impediments to growth, a challenging business climate including continued corruption or political volatility). With regards to Ukraine, the truth in terms of potential possible EU-integration effects lies somewhere in between. In our view, **in the short term (i.e. next 1-2 years) the effect of DCFTA signing, either positive or negative, will be negligible.** On this time horizon, Ukraine's economic performance will be dominated by the currently ongoing adjustment recession that may help to sweat out large-scale external and internal economic imbalances and the fallout from the confrontation with Russia (i.e. high degree of political risk/uncertainty). However, **in the longer term, Ukraine has a strong chance to benefit from the free trade agreement with the EU**. In particular, if Ukraine harmonises its standards and regulations and improves the business climate, it might boost exports significantly, i.e. gaining full access to a prosperous and relatively stable market with a population of 500 mn. In this context it has to be stressed that deeper economic integration with the more stable Western EU markets may offer more diversification for the highly volatile Ukrainian economy compared to a deeper integration with other (commodity-exporting) economies that are characterised by a very high degree of overall macroeconomic volatility themselves (e.g. the Russian economy is characterised by the highest overall macroeconomic volatility among major emerging markets). Moreover, transformation to EU standards may stimulate the inflow of foreign direct investments into the country, attracted by the potentially large domestic market (a population size above Poland, but a nominal GDP in EUR-terms at a third of its western CE neighbour), high quality human capital and relatively low labour costs (e.g. compared to neighbouring EU economies in CE/SEE). However, in order to attract more market-seeking Western FDI Ukraine has to overcome perennial economic weaknesses like a high country risk premia, returning large-scale currency devaluations etc. Moreover, Ukraine must show that the current Western integration will be pursued in a sustainable way and remains politically acceptable in the country itself.

According to a more optimistic estimate by the Institute for Economic Research and Policy Consulting, the **DCFTA with the EU might lead to an 11.8% cumula-**

tive increase in wealth over the medium term.[1] However, there are also more cautious estimates in the range of 4-5% in terms of cumulative wealth/output increases.[2] Hence, **there are long-term benefits of deeper integration with the EU, but much will have to be done to tap into them**. We think that the latest political and economic developments have been rather favourable for Ukraine in this respect. First, the country currently enjoys a high level of support (moral and financial) from the international community. Consequently, there is a high chance that some material, initial part of the large financial resources necessary for the adoption of EU technical standards and regulations will be provided by foreign donors, although we see a risk that the current level of moral and financial support for Ukraine in the Western world (and EU) cannot be sustained over the longer term. Second, the economy got a massive competitiveness boost from the large-scale exchange rate adjustment (i.e. currency devaluation by 30-35%) seen over the last 12 months, which, coupled with the improved market access, should facilitate Ukraine's exports to EU.

As for the DCFTA's impact on different sectors of the economy, we first note that **ferrous metals and food products (raw and processed) dominate Ukraine's exports to the EU** – the share of each category was close to 30% in 2013. The exports of mineral products and machinery comprised 18% and 12% of total exports, respectively. The tariff barriers for steel exports to the EU were largely removed after Ukraine's accession to WTO in 2008, and thus the abolishment of customs duties will not have much effect on Ukraine's steel industry. At the same time, up to now steel exports to the EU have been hampered by administrative restrictions, such as anti-dumping measures. Hence, the DCFTA with the EU is expected to reduce the chances for new restrictive measures against Ukrainian producers and thus improve market access. However, **since Ukraine is already a big player in the EU steel market, export volumes are not likely to increase significantly in the short term**.

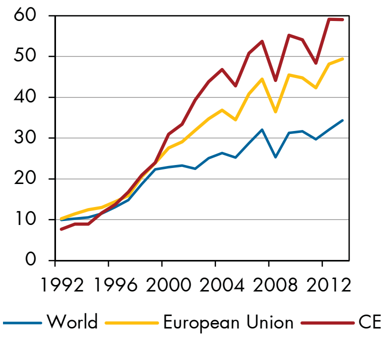
Experts believe that **the domestic food industry might emerge as one of the main potential beneficiaries from EU trade liberalisation**. According to a study by the Institute for Economic Research and Policy Consulting, the removal of customs duties by the EU will stimulate a 20% increase in Ukraine's food exports to EU countries, and roughly the same effect might be realised from the removal of Ukraine's export duties on oil seeds.[3] Producers of tobacco, grain and meat products are expected to benefit the most. Also, the authors estimate the total volume of new exports (i.e. those food products, which were not exported to the EU before) at the level of USD 2.3 bn for the next 10 years with the highest potential in the selected categories of grain (corn flour), meat and dairy products. At the same time, food imports from the European countries are to increase by 7%, following the removal of import duties by the Ukraine. Hence, in general, the food industry might benefit substantially from trade liberalisation with the EU but again much will depend on how quickly Ukrainian producers are able to embrace European standards.

What Russia will do?

Of course, the assessment of the impact of the DCFTA with the EU on the Ukrainian economy would not be complete without an analysis of **potential retaliation measures by Russia**, which has been actively using trade restrictions to prevent the signing of an AA between EU and Ukraine (see the Table on page 6). Rus-

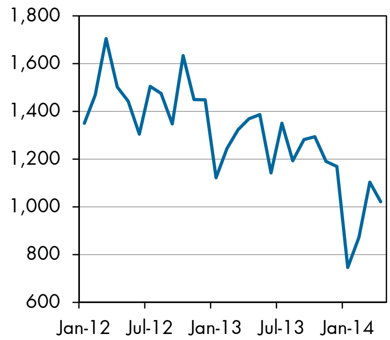
1 Movchan V, Giucci R. (2011): "Quantitative Assessment of Ukraine's Regional Integration Options: DCFTA with European Union vs. Customs Union with Russia, Belarus and Kazakhstan" IER Policy Paper.
2 European Parliament (2011): The Free Trade Agreement Between the EU and Ukraine: Conceptual Background, Economic Context and Potential Impact
3 Ryzhenkov M, Galko S, Movchan V, Radeke J. (2013): "The impact of the EU-Ukraine DCFTA on agricultural trade" IER Policy Paper.

Inward FDI (% of GDP)



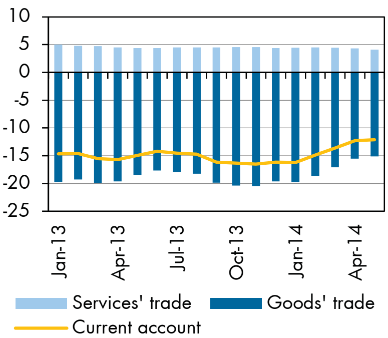
Source: Unctad, Raiffeisen RESEARCH

Volume of goods` export to Russia*



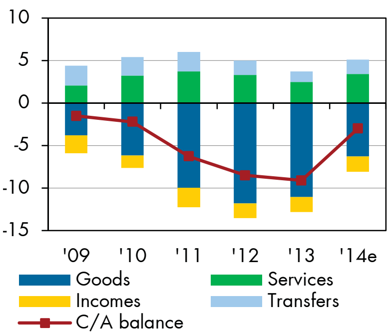
** in USD mn*
Source: State Statistics Service, Raiffeisen RESEARCH

UA: C/A balance*



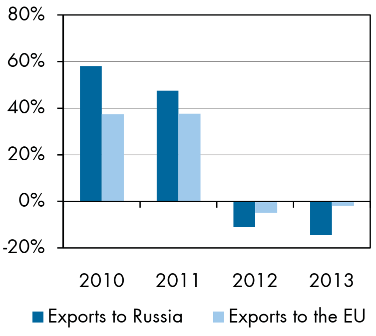
** 12-month rolling, USD bn*
Source: National Bank of Ukraine, Raiffeisen RESEARCH

UA: C/A balance (% of GDP)



Source: National Bank of Ukraine, Raiffeisen RESEARCH

Goods' export growth rate (% yoy)



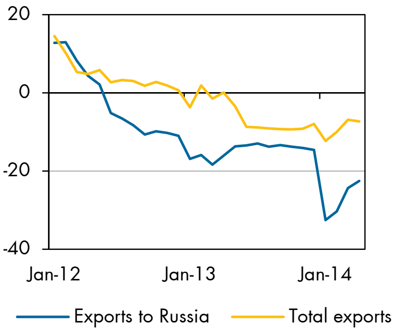
Source: State Statistics Service, Raiffeisen RESEARCH

sian officials claim that the EU-Ukraine DCFTA will heavily affect Russia as EU imports can freely flow into Russia via Ukraine. Hence, Russia is threatening to take defensive actions against Ukraine.

We can define three different sets of retaliatory measures Russia might take.

- The harshest one is a **total ban on Ukrainian exports.**
- Another possibility is to **exclude Ukraine from the CIS free trade zone**, which means that Ukrainian exports will be subject to the maximum level of customs duties Russia is allowed to charge under WTO rules.
- Finally, Russia might not formally restrict all Ukrainian exports, but stick to its current **policy of banning or hampering the export of selected goods from Ukraine on different grounds**, such as enhanced border controls, anti-dumping investigations and non-compliance with Russian technical and quality standards.

Goods' export growth rate (% mom)



Source: State Statistics Service, Raiffeisen RESEARCH

In our view, a total ban on Ukrainian exports by Russia is not very likely as it lacks strong legal grounds and might provoke further deterioration in relations between the European Union and Russia. In particular, EU and US officials hinted that trade retaliation against Ukraine might threaten further sanctions on Russia. As for the termination of the free trade agreement, for that Russia needs the consent of the other Customs Union members (Belarus and Kazakhstan), which are showing strong resistance up to now (which may, though, change in case of increasing pressure from Russia), fearing retaliatory actions by Ukraine and EU. Hence, **the most realistic scenario for Russian retaliation at the moment is the limited use of ad-hoc restrictions on Ukrainian exports**. In particular, Russia might try to use the threat of trade restrictions as another leverage tool (together with the gas price dispute and support of separatists in Donbass) to retain influence in Ukraine. However, it has to be stressed that the current political setting in Russia may also lead to economically less rationale actions. Hence, **the risk of major trade disruptions still remains material**.

Effects of additional retaliation by Russia are limited in the short term

In our view, assuming Russia does not ban all exports from Ukraine or terminate the CIS free trade agreement, the immediate impact of Russian retaliatory actions will not be significant, taking into account a number of factors. First, **Ukraine's trade with Russia has already taken a big hit** in the last few years: the share of exports to Russia in total exports dropped from 29% in 2011 to 19.5% in Jan-Apr 2014. Exports to Russia slumped by 22.6% yoy in the first four months of 2014, with the export of railcars, confectionary and non-railway vehicles most strongly affected. For comparison, overall exports in Jan-May "only" dropped by 7.3% yoy. Moreover, despite the sizeable drop in exports to Russia, Ukraine's merchandise trade balance deficit shrank from USD 6.2 bn in Jan-May 2013 to 2.2 bn in the same period of this year.

Ukraine's exports to Russia

		2012		2013		Jan-Apr 2014	
		Volume (USD mn)	Growth (% yoy)	Volume (USD mn)	Growth (% yoy)	Volume (USD mn)	Growth (% yoy)
1	Nuclear reactors, boilers, machinery	2,271	3.8	2,222	-2.2	711	9.6
2	Ferrous metals	2,329	-4.1	2,162	-7.2	464	-38.7
3	Railway machinery	2,636	-17.5	1,743	-33.9	288	-57.3
4	Fertilizers	823	3.9	909	10.5	268	-4.6
5	Electric machinery	1,160	9.8	1,101	-4.9	245	-18.8
6	Steel products	1,110	-20.4	844	-24.0	229	-29.1
7	Paper and cardboard	725	6.6	770	6.4	204	-10.9
8	Salt; sulfur; soil and stones	464	24.1	474	2.0	114	-17.4
9	Plastics, polymers	551	18.4	391	-29.0	93	-23.2
10	Dairy products	356	-19.7	382	7.2	76	-17.5
11	Mineral fuel, oil and refining products	797	-71.4	217	-72.8	74	12.0
12	Furniture	219	23.7	233	6.1	68	0.9
13	Vehicles (non-railway)	431	-12.2	192	-55.6	54	-12.0
14	Chocolate sweets	442	3.4	337	-23.8	54	-55.1
15	Processed vegetables	170	21.2	176	3.3	53	-18.8
	TOTAL	**17,632**	**-11.0**	**15,077**	**-14.5**	**3,743**	**-22.6**

Source: State Statistics Service, Raiffeisen RESEARCH

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

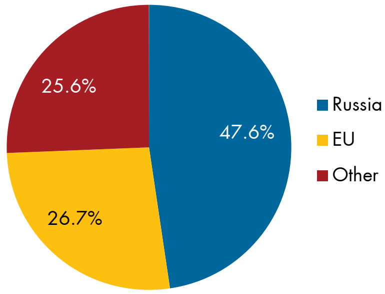
Second, in contrast to food products or vehicles, **Russia does not have much room (in the short term) to cut imports of heavy machinery from Ukraine** (which currently account for more than 25% of exports to Russia), since it would badly affect Russia's supply chain, thus taking a heavy toll on the already fragile economy. Indeed, despite Russia waging a trade war on Ukraine, exports of nuclear reactors, boilers and machinery even increased in yoy terms as of end-April. In particular, the military-industrial complex of Russia crucially depends on sophisticated Ukrainian components (e.g. helicopter engines). These cannot easily be replaced by Russian production and it would take years and high costs to do so.[4]

Third, **Ukraine has a fair chance to reorient rather quickly the exports of certain food products** (first of all, confectionary and meat products) from Russia to the EU, thus mitigating the impact of the retaliatory actions by its Eastern neighbour to some extent.

In general, according to our estimate, the total volume of Ukrainian exports to Russia will fall by 25% yoy in 2014 to USD 11.2 bn (from USD 17.7 bn and 15.1 bn in 2012 and 2013, respectively). However, the negative impact on the trade figures will be cushioned by higher exports to the EU, devaluation effects, and lower prices and volumes of imported gas. As a result, we expect Ukraine's overall merchandise export to drop only by 8.3% to USD 59.5 bn. On the backdrop of crashing imports by 19.3% the C/A deficit is set to shrink from 9.1% of GDP in 2013 to just 3% this year. In a more negative scenario, if Russia tries to heavily cut imports from Ukraine, exports to Russia might halve this year, which is USD 4 bn less in absolute terms compared to the baseline scenario. This figure does not look really dramatic, however, one should take into account the already stretched financial situation of the Ukrainian government, which is heavily reliant on large-scale external (IMF and Western) financial support to make ends meet (and service external obligations). Thus, any additional hit would be hard to bear, although Western support could rise in the event of an aggressive Russian reaction to DCFTA signing; Western/EU pressure on Russia did increase notably in the run-up to the signing of the cooperation agreements with Ukraine, Georgia and Moldova.

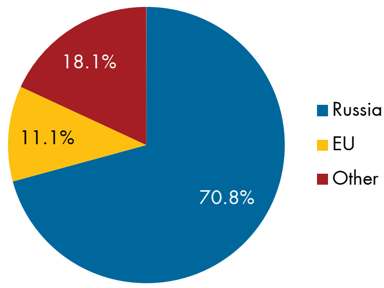
As for the particular sectors of the economy, **the production of railway machinery looks the most vulnerable to Russian restrictive measures**, given high dependence on exports to Russia (it accounts for over 70% of total exports), which cannot be reduced in the short term – i.e. domestic demand is subdued due to this year's strong recession, while exports to the EU are hampered by the different technical standards. Moreover, domestic railcar production in Russia has increased substantially in the last few years, so it can cut imports from Ukraine rather easily. **Other sectors of the economy are not likely to be much affected in the short run**. In particular, the share of metal exports to Russia is only 10% of total exports (albeit the share is higher around 40% for steel products). So, the shutdown of the Russian market will not have much effect for the steelmakers, which recently got a competitiveness boost due to the exchange rate adjustment. **Machine building industry** is rather heavily dependent on exports to Russia, albeit its deep integration into the supply chain of the CIS countries reduces the risk of retaliatory actions in the short term. Nevertheless, the crucial task for the Ukrainian producers and policymakers is to find the new markets, thus reducing this dependency. For the also highly relevant food industry it might be easier for local producers to reorient export flows from the Russian to the EU market.

Heavy machinery export structure*



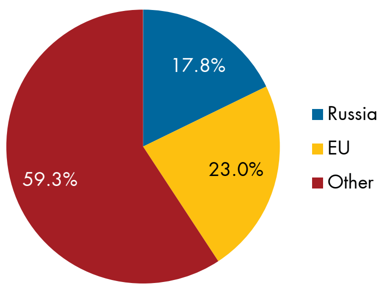
End 2013
** Nuclear reactors, boilers and electric machinery*
Source: State Statistics Service, Raiffeisen RESEARCH

Heavy machinery export structure



End 2013
Source: State Statistics Service, Raiffeisen RESEARCH

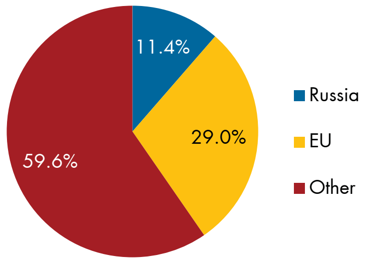
Metals' export structure*



End 2013
** incl. steel products*
Source: State Statistics Service, Raiffeisen RESEARCH

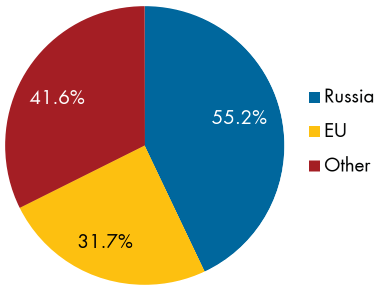
4 Interestingly, the new Ukrainian President Poroshenko voiced the termination of "defense corporation" between Russia and Ukraine. Though not much has happened so far, a reduction of military exports to Russia would be detrimental for Ukraine producers as well, which would have difficulties to replace the Russian export market.

Food export structure



End 2013
ource: State Statistics Service, Raiffeisen RESEARCH

Dairy products export structure



End 2013
Source: State Statistics Service, Raiffeisen RESEARCH

Conclusion

In our view, claims that signing the DCFTA with the EU and subsequent trade retaliation by Russia will immediately kill the Ukrainian economy are by and large overstating the possible implications in realistic scenarios. The situation is not nearly as dramatic and in fact, it is even rather the opposite – **deepening economic integration with the European Union provides an enormous chance for Ukraine to rebuild domestic economic and political systems and tap its substantial long-term potential. Deepening economic integration with the EU can also function as an important external anchor for the Ukrainian political establishment** that was characterised by hefty policy changes over the last decade. However, it will strongly depend on the ability of the Ukrainian authorities and businesses to adapt to the European standards and regulations, to improve the investment climate and promote export diversification in key industries such as machine building. It should be noted that these reforms are not only crucial for improving the economic situation in Ukraine, but also critical for maintaining political and social stability in Ukraine, as the potential shutdown of the Russian market will mostly affect the Eastern regions of the country, which are currently embroiled in political turmoil.

In terms of potential positive long-term effects of deep economic integration with the EU it has to be added that the success seen in some new EU members in CE and partially SEE experienced over the last decades will be very hard to repeat. **The success of some CE countries with EU economic integration was supported by a very unique global and European/CEE setting** (i.e. major deepening of the EU internal market, integration of global emerging markets into the world economy, strong global FDI and financial liberalisation). Hence, a repeat of the CE success story in different times, countries and regions (besides other factors) would not be a tranquil enterprise.

At this juncture we also want to reiterate that despite signing of the DCFTA with the EU an unspoilt economic relationship with Russia would be highly beneficial for Ukraine and also the EU as a whole. Therefore, the current situation with regards to Ukraine may also support the formulation of **a medium-term strategy regarding the economic cooperation between the EU, countries with close economic ties to the EU and the Russia-led customs union once the current political situation calms**.

Ukraine - Russia trade frictions

Date	Details
June 2013	Customs Union cancelled the import quotas for the Ukrainian maker of steel pipes "Interpipe"
July 2013	The imports of Ukraine's confectionary "Roshen" are banned by the Federal Service for Oversight of Consumer Protection and Welfare, which claimed that the Ukrainian sweets failed safety and quality checks
August 2013, March 2014	Enhanced border controls of the exports from Ukraine.
October 2013	Russia banned the imports of selected types of railcars from Ukraine by stripping the Ukrainian producers of corresponding quality certificates
February 2014	Russia temporary suspended the certificate of Ukraine's poultry producer MHP (the certificate has been reactivated in May)
February 2014	The imports of Ukraine's confectionaries "AVK" and "Konti" are banned by the Federal Service for Oversight of Consumer Protection and Welfare on the grounds of inadequacy in quality and marking
June-July 2014	The Federal Service for Oversight of Consumer Protection and Welfare banned the imports of dairy products, produced by a number of the Ukrainian companies. At the moment, only 6 out of 27 Ukraine's dairy producers have free access to the Russian market
June 2014	The imports of potato from Ukraine are banned by the Federal Service for Veterinary and Phytosanitary Surveillance on the grounds of inadequacy in quality.
June 2014	Enhanced checks of the meat exports from Ukraine – additional documents and certificates required.

Source: national sources, Raiffeisen RESEARCH

Risk notifications and explanations

Warnings

- Figures on performance refer to the past. Past performance is not a reliable indicator of the future results and development of a financial instrument, a financial index or a securities service. This is particularly true in cases when the financial instrument, financial index or securities service has been offered for less than 12 months. In particular, this very short comparison period is not a reliable indicator for future results.
- Performance is reduced by commissions, fees and other charges, which depend on the individual circumstances of the investor.
- The return on an investment can rise or fall due to exchange rate fluctuations.
- Forecasts of future performance are based purely on estimates and assumptions. Actual future performance may deviate from the forecast. Consequently, forecasts are not a reliable indicator for the future results and development of a financial instrument, a financial index or a securities service.

Detailed information on sensitivity analyses (procedure for checking the stability of potential assumptions made in the context of financial analysis) can be found at: www.raiffeisenresearch.at/sensitivityanalysis

The distribution of all recommendations relating to the calendar quarter prior to the publications date, and distribution of recommendations, in the context of which investmentbanking services within the meaning of § 48f (6) Z 6 Stock Exchange Act (BörseG) have been provided in the last 12 months, is available under: www.raiffeisenresearch.at/distributionofrecommendations

Disclaimer Financial Analysis

Publisher: Raiffeisen Bank International AG

Supervisory authority: Austrian Financial Market Authority (FMA)

This document is for information purposes and may not be reproduced or distributed to other persons. This document constitutes neither a solicitation of an offer nor a prospectus in the sense of the Austrian Capital Market Act (KMG) or the Stock Exchange Act or any other comparable foreign law. An investment decision in respect of a security, financial product or investment must be made on the basis of an approved, published prospectus or the complete documentation for the security, financial product or investment in question, and not on the basis of this document.

This document does not constitute a personal recommendation to buy or sell financial instruments in the sense of the Securities Supervision Act. Neither this document nor any of its components shall form the basis for any kind of contract or commitment whatsoever. This document is not a substitute for the necessary advice on the purchase or sale of a security, investment or other financial product. In respect of the sale or purchase of securities, investments or financial products, your banking advisor can provide individualised advice which is suitable for investments and financial products.

This analysis is fundamentally based on generally available information and not on confidential information which the party preparing the analysis has obtained exclusively on the basis of his/her client relationship with a person.

Unless otherwise expressly stated in this publication, RBI deems all of the information to be reliable, but does not make any assurances regarding its accuracy and completeness.

In emerging markets, there may be higher settlement and custody risk as compared to markets with established infrastructure. The liquidity of stocks/financial instruments can be influenced by the number of market makers. Both of these circumstances can result in elevated risk in relation to the safety of investments made on the basis of the information contained in this document.

The information in this publication is current, up to the creation date of the document. It may be outdated by future developments, without the publication being changed.

Unless otherwise expressly stated (http://www.raiffeisenresearch.at/specialcompensation), the analysts employed by Raiffeisen Bank International AG are not compensated for specific investment banking transactions. Compensation of the author or authors of this report is based (amongst other things) on the overall profitability of RBI, which includes, inter alia, earnings from investment banking and other transactions of RBI. In general, RBI forbids its analysts and persons reporting to the analysts from acquiring securities or other financial instruments of any enterprise which is covered by the analysts, unless such acquisition is authorised in advance by RBI's Compliance Department.

RBI has put in place the following organisational and administrative agreements, including information barriers, to impede or prevent conflicts of interest in relation to recommendations: RBI has designated fundamentally binding confidentiality zones. Confidentiality zones are typically units within credit institutions, which are delimited vis-f-vis other units by organisational measures covering the exchange of information, because compliance-relevant information is continuously or temporarily handled there. Compliance-relevant information may fundamentally not leave a confidentiality zone and is to be treated as strictly confidential in internal business operations, including interaction with other units. This does not apply to the transfer of information necessary for usual business operations. Such transfer of information is limited, however, to what is absolutely necessary (need-to-know principle). The exchange of compliance-relevant information between two confidentiality zones may only occur with the involvement of the Compliance Officer.

SPECIAL REGULATIONS FOR THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (UK):

This document does not constitute either a public offer in the meaning of the Kapitalmarktgesetz („KMG") nor a prospectus in the meaning of the KMG or of the Börsegesetz. Furthermore this document does not intend to recommend the purchase or the sale of securities or investments in the meaning of the Wertpapieraufsichtsgesetz. This document shall not replace the necessary advice concerning the purchase or the sale of securities or investments. For any advice concerning the purchase or the sale of securities of investments kindly contact your RAIFFEISENBANK. Special regulations for the United Kingdom of Great Britain andNorthern Ireland (UK):this publication has been either approved or issued by Raiffeisen Bank International AG (RBI) in order to promote its investment business. Raiffeisen Bank International AG, London Branch is authorised by the Austrian Financial Market Authority and subject to limited regulation by the Financial Conduct Authority. Details about the extent of our regulation by the Financial Conduct Authority are available from us on request. This publication is not intended for investors who are Retail Customers within the meaning of the FCA rules and should therefore not be distributed to them. Neither the information nor the opinions expressed herein constitute or are to be construed as an offer or solicitation of an offer to buy (or sell) investments. RBI may have affected an Own Account Transaction within the meaning of FCA rules in any investment mentioned herein or related investments and or may have a position or holding in such investments as a result. RBI may have been, or might be, acting as a manager or co-manager of a public offering of any securities mentioned in this report or in any related security.

SPECIFIC RESTRICTIONS FOR THE UNITED STATES OF AMERICA AND CANADA: This document may not be transmitted to, or distributed within, the United States of America or Canada or their respective territories or possessions, nor may it be distributed to any U.S. person or any person resident in Canada, unless it is provided directly through RB International Markets (USA) LLC, a U.S. registered broker-dealer ('RBIM'), and subject to the terms set forth below.

SPECIFIC INFORMATION FOR THE UNITED STATES OF AMERICA AND CANADA: This research document is intended only for institutional investors and is not subject to all of the independence and disclosure standards that may be applicable to research documents prepared for retail investors. This report was provided to you by RB International Markets (USA) LLC, a U.S. registered broker-dealer ('RBIM'), but was prepared by our non-U.S. affiliate, Raiffeisen Bank International AG (RBI). Any order for the purchase or sale of securities covered by this report must be placed with RBIM. You can reach RBIM at 1133 Avenue of the Americas, 16th Floor, New York, NY 10036, 212-600-2588. This document was prepared outside the United States by one or more analysts who may not have been subject to rules regarding the preparation of reports and the independence of research analysts comparable to those in effect in the United States. The analyst or analysts who prepared this research (i) are not registered or qualified as research analysts with the Financial Industry Regulatory Authority (FINRA) in the United States, and (ii) are not allowed to be associated persons of RBIM and are therefore not subject to FINRA regulations, including regulations related to the conduct or independence of research analysts.

The opinions, estimates and projections contained in this report are those of RBI only as of the date of this report and are subject to change without notice. The information contained in this report has been compiled from sources believed to be reliable by RBI, but no representation or warranty, express or implied, is made by RBI or its affiliated companies or any other person as to the report's accuracy, completeness or correctness. Securities which are not registered in the United States may not be offered or sold, directly or indirectly, within the United States or to U.S. persons (within the meaning of Regulation S under the Securities Act of 1933 [the 'Securities Act']), except pursuant to an exemption under the Securities Act. This report does not constitute an offer with respect to the purchase or sale of any security within the meaning of Section 5 of the Securities Act and neither shall this report nor anything contained herein form the basis of, or be relied upon in connection with, any contract or commitment whatsoever. This report provides general information only. In Canada it may only be distributed to persons who are resident in Canada and who, by virtue of their exemption from the prospectus requirements of the applicable provincial or territorial securities laws, are entitled to conduct trades in the securities described herein.

If any term of this Disclaimer is found to be illegal, invalid or unenforceable under any applicable law, such term shall, insofar as it is severable from the remaining terms, be deemed omitted from this Disclaimer; it shall in no way affect the legality, validity or enforceability of the remaining terms.

Imprint

Publisher and editorial office of this publication
Raiffeisen Bank International AG
Am Stadtpark 9, A-1030 Vienna

Media Owner of this publication
Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen
Am Stadtpark 9, A-1030 Vienna

Chairman of Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen:
Mag. Peter Brezinschek (Chairman), Mag. Helge Rechberger (Vice-Chairman.)

Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen is constituted as state-registered society. Purpose and activity are (inter alia), the distribution of analysis, data, forecasts and reports and similar publications related to the Austrian and international economy as well as financial markets.

Basic tendency of this publication

- Presentation of activities of Raiffeisen Bank International AG and its subsidiaries in the area of conducting analysis related to the Austrian and international economy as well as the financial markets.
- Publishing of analysis according to various methods of analyses covering economics, interest rates and currencies, government and corporate bonds, equities as well as commodities with a regional focus on the Eurozone and Central and Eastern Europe under consideration of the global markets.

Design: Kathrin Rauchlatner, Birgit Bachhofner

Please also note the legal notice
[http://www.raiffeisenresearch.at/eBusiness/rai_template1/608621655782272829-608624136931196407-608624136931196407-NA-26-EN.html] and the General Terms and Conditions of Business of Raiffeisen Bank International AG [http://www.rbinternational.com/eBusiness/01_template1/829189266947841370-NA-830528538732787300-NA-2-EN.html]

Contacts

Global Head of Research:
Peter Brezinschek (1517)

Top-Down CEE Banking Sector:
Gunter Deuber (5707), Elena Romanova (1378)

Research Sales:
Werner Weingraber (5975)

Economics, Fixed Income, FX:
Valentin Hofstätter (Head, 1685), Jörg Angelé (1687), Eva Bauer (5644), Gunter Deuber (5707), Wolfgang Ernst (1500), Stephan Imre (6757), Lydia Kranner (1609), Matthias Reith (6741), Andreas Schwabe (1389), Gintaras Shlizhyus (1343), Gottfried Steindl (1523), Martin Stelzeneder (1614)

Credit/Corporate Bonds:
Christoph Klaper (Head, 1652), Michael Ballauf (2904), Jörg Bayer (1909), Igor Kovacic (6732), Martin Kutny (2013), Peter Onofrej (2049), Manuel Schreiber (3533), Lubica Sikova (2139), Jürgen Walter (5932)

Stocks:
Helge Rechberger (Head, 1533), Aaron Alber (1513), Christian Hinterwallner (1633), Jörn Lange (5934), Hannes Loacker (1885), Johannes Mattner (1463), Christine Nowak (1625), Leopold Salcher (2176), Andreas Schiller (1358), Connie Schümann (2178), Christoph Vahs (5889)

Quant Research/Emerging Markets:
Veronika Lammer (Head, 3741), Björn Chyba (8161), Judith Galter (1320), Dagmar König (8017), Andreas Mannsparth (8133), Manuel Schuster (1529), Stefan Theußl (1593)

Technical Analysis:
Robert Schittler (1537), Stefan Memmer (1421)

Layout:
Birgit Bachhofner (3518), Kathrin Rauchlatner (1518)

Translation:
David Wietstruk (6781), William Burton, Marina Ivanova, Sarah Fleissner, Benjamin-Zsolt Zombori

Publisher: Raiffeisen RESEARCH GmbH, A-1030 Vienna, Am Stadtpark 9, Phone: +43 1 717 07-1521
Editorial Department: Raiffeisen RESEARCH / RBI A-1030 Vienna, Am Stadtpark 9, Phone: +43 1 717 07 - 1521