

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
April 24, 2017

Economy

Non-oil GDP up 2.4% y/y in 3M17

Azerbaijan's non-oil GDP was up 2.4% y/y in 3M17, supported by growth in agriculture (+3.5% y/y), transportation and storage (+3.2% y/y), trade (+1.6% y/y), and construction (+4.7% y/y) sectors. However, with oil GDP down 6.8% y/y, overall GDP contracted 0.9% y/y in 3M17.

Nominal GDP in AZN terms was up 28.0% y/y to AZN 15.2bn, while in US\$ terms it was up 13.7% y/y to US\$ 8.5bn.

Inflation rate at 14.4% y/y in March 2017

Annual CPI inflation rate increased from 13.0% in the previous month to 14.4% in March 2017. In March, food prices were up 19.9% y/y (+3.3ppts m/m), non-food prices were up 12.8% y/y (+0.1ppts m/m), and service sector prices were up 8.8% y/y (+0.0ppts m/m).

Azerbaijan's gross FX reserves at 100.2% of GDP

State Oil Fund's (SOFAZ) revenues in 1Q17 were at AZN 3.3bn (+61.8% y/y) while expenditures were at AZN 3.8bn (+97.6% y/y), resulting in AZN 0.6bn deficit compared to AZN 0.1bn surplus in 1Q16. Expenditures were driven by a new spending item "Transfers to the Central Bank to support macroeconomic stability" which amounted to AZN 2.3bn, transfers to the state budget amounted to AZN 1.5bn (-8.1% y/y) while Fund's direct expenditures were at AZN 43.5mn (-88.0% y/y). As a result of the deficit, SOFAZ reserves declined 3.0% y/y to US\$33.2bn.

Together with CBAR reserves, Azerbaijan's gross FX reserves were at US\$ 37.6bn or 100.2% of annual GDP in 2016.

Oil extraction down in 1Q17

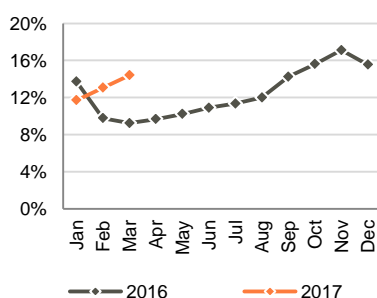
Crude oil extraction in Azerbaijan was down 9.9% to 9.5mn tons in 1Q17, gross natural gas extraction was down 6.8% y/y to 7.0bcm. However, according to the Statistical Committee, commercially available natural gas extraction (gross minus re-injected gas) was up 0.9% y/y to 4.8bcm in 1Q17.

Tax receipts up in March 2017

According to the Ministry of Taxes, tax receipts in 1Q17 were at AZN 1.4bn, 3.8% higher than budgeted, albeit, 7.9% less than in 1Q16. In March 2017 tax receipts of the Ministry of Taxes were up 9.2% y/y to AZN 0.5bn.

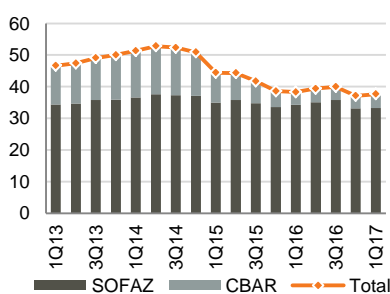
Customs Committee tax receipts, however, were up 37.0% y/y to AZN 0.6bn in 1Q17. In March 2017, Customs Committee receipts were up 16.4% y/y to AZN 0.2bn.

CPI inflation, % y/y



Source: AzSTAT

Azerbaijan's FX reserves, US\$ bn



Source: SOFAZ, CBAR

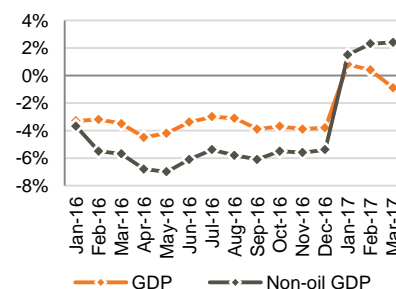
Key macro indicators

	3M16	2016	2015
GDP (% change)	-0.9%	-3.8%	1.1%
NO* GDP (% change)	2.4%	-5.4%	1.1%
GDP per capita (ppp)	...	17,439	18,030
GDP per capita (US\$)	...	3,897	5,559
Population (mn)	...	9.8	9.7
Inflation (eop)	14.4%	15.5%	7.7%
CAB (% of GDP)	...	-3.6%	-0.4%
NO* CAB (% of NOGDP)	...	-23.3%	-18.3%
Fiscal balance (% of GDP)	...	0.3%	-5.3%
NO* fiscal bal. (% of NOGDP)	...	-14.5%	-33.7%
Gross reserves (US\$ bn)	...	37.1	38.6

Source: Official data

* Non-oil

Real GDP growth, % (YTD)



Source: AzSTAT

International ranking of Azerbaijan

Ease of Doing Business # 65

Economic Freedom Index # 68 (moderately free)

Global Competitiveness Index # 37 (regional leader)

Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

STANDARD & POOR'S BB+ Negative Jul-2016	Moody's INVESTORS SERVICE Ba1 Negative Apr-2016	FitchRatings BB+ Negative Aug-2016
--	---	---

Source: Rating agencies



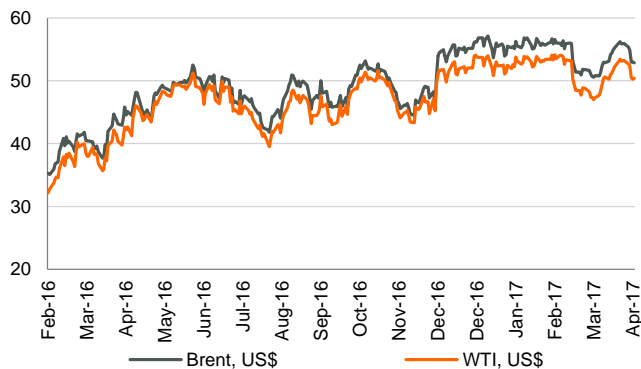
Oil prices and exchange rate

Oil price: Brent oil price was down 5.4% w/w to US\$ 52.9/bbl (up 18.7% y/y), while WTI oil price decreased 5.3% w/w to US\$ 50.4/bbl (up 19.3% y/y). In AZN terms, Brent oil price was down 5.5% w/w to AZN 88.7 (up 31.6% y/y).

Exchange rate: On April 21, 2017, Central Bank's AZN/US\$ rate was 1.7022 (0.0% w/w) and AZN/EUR rate was 1.8242 (+0.9% w/w). At Bloomberg AZN/US\$ was trading at 1.6775 (-0.1% w/w) while AZN/EUR was trading at 1.7951 (+1.5% w/w).

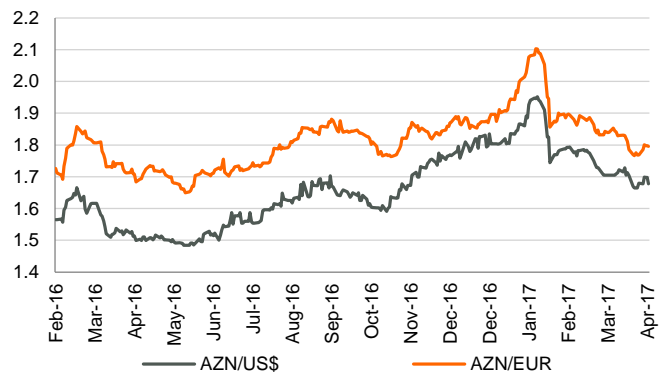
Monetary policy rate: Monetary policy rate was unchanged at 15.0%.

Crude oil prices (US\$/bbl)



Source: Bloomberg

Exchange rates



Source: Bloomberg

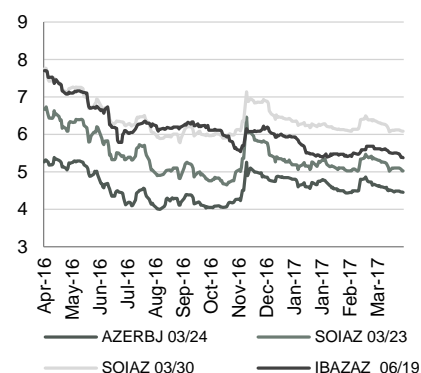


Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.1% yield, trading at 107.6 (+0.3% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 100.5 (+0.1% w/w), yielding 5.4%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 101.7 (+0.2% w/w) at 4.5% yield to maturity.

Azerbaijan Eurobonds, YTM (%)

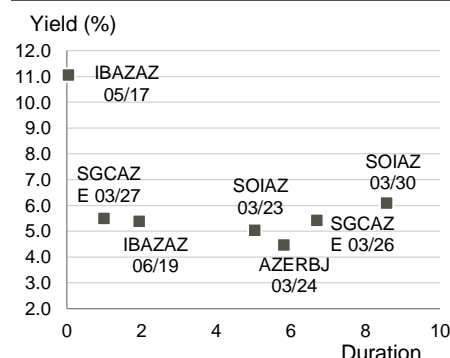


Source: Bloomberg

Eurobonds							
	SOIAZ 03/23	SOIAZ 03/30	IBAZAZ 05/17	IBAZAZ 06/19	SGCAZE 03/26 (1)	SGCAZE 03/26 (2)	AZERBJ 03/24
Amount, US\$ mn	1000	750	100	500	1,000	1,000	1,250
Issue date	Mar-13	Mar-15	May-07	Jun-14	Mar-16	Mar-17	Mar-14
Maturity date	Mar-23	Mar-30	May-17	Jun-19	Mar-26	Mar-26	Mar-24
Coupon, %	4.750%	6.950%	6.170%	5.625%	6.875%	6.875%	4.750%
Fitch/S&P/ Moody's	BB+/BB /Ba1	BB+/BB /Ba1	BB-/Ba3	BB-/Ba3	BB+/-/Ba1	BB+/-/Ba1	BB+/BB+ /Ba1
Mid price, US\$	98.6	107.6	99.8	100.5	110.2	109.8	101.7
Mid yield, %	5.0	6.1	11.1	5.4	5.4	5.5	4.5
Z-spread, bps	309.6	385.6	1,019.1	384.3	332.2	#N/A N/A	245.5

Source: Bloomberg

Azerbaijan Eurobond universe



Source: Bloomberg

Eastern European sovereign 10-year bond performance

Issuer	Amount, US\$ mn	Coupon, %	Maturity date	Ratings (Fitch/S&P/Moody)	Mid price, US\$	Mid yield, %	Z-spread, bps
Azerbaijan	1,250	4.750%	3/18/2024	BB+/BB+/Ba1	101.7	4.5	245.5
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	110.9	3.9	211.8
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	119.5	0.4	-227.1
Croatia	1,250	3.875%	5/30/2022	BB/BB/Baa2	109.1	2.0	181.9
Hungary	3,000	6.375%	3/29/2021	BBB-/BBB-/Baa3	113.2	2.8	104.8
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	116.1	3.1	125.7
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	106.7	2.7	99.6
Turkey	2,000	5.625%	3/30/2021	BB+/BB/Baa1	105.8	4.0	226.0
Kazakhstan	2,500	5.125%	7/21/2025	BBB-/BBB-/Baa3	109.3	3.8	172.3

Source: Bloomberg

Disclaimer

This document is strictly confidential and has been prepared by JSC Galt & Taggart ("Galt & Taggart"), a member of JSC Bank of Georgia group ("Group") solely for informational purposes and independently of the respective companies mentioned herein. This document does not constitute or form part of, and should not be construed as, an offer or solicitation or invitation of an offer to buy, sell or subscribe for any securities or assets and nothing contained herein shall form the basis of any contract or commitment whatsoever or shall be considered as a recommendation to take any such actions.

Galt & Taggart is authorized to perform professional activities on the Georgian market. The distribution of this document in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by Galt & Taggart to inform themselves about and to observe any and all restrictions applicable to them. This document is not directed to, or intended for distribution, directly or indirectly, to, or use by, any person or entity that is a citizen or resident located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction.

Investments (or any short-term transactions) in emerging markets involve significant risk and volatility and may not be suitable for everyone. The recipients of this document must make their own investment decisions as they believe appropriate based on their specific objectives and financial situation. When doing so, such recipients should be sure to make their own assessment of the risks inherent in emerging market investments, including potential political and economic instability, other political risks including without limitation changes to laws and tariffs, and nationalization of assets, and currency exchange risk.

No representation, warranty or undertaking, express or implied, is or will be made by Galt & Taggart or any other member of the Group or their respective directors, employees, affiliates, advisers or agents or any other person as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of this document and the information contained herein (and whether any information has been omitted from this document) and no reliance should be placed on it. This document should not be considered as a complete description of the markets, industries and/or companies referred to herein. Nothing contained in this document is, is to be construed as, or shall be relied on as legal, investment, business or tax advice, whether relating to the past or the future, by Galt & Taggart any other member of the Group or any of their respective directors, employees, affiliates, advisers or agents in any respect. Recipients are required to make their own independent investigation and appraisal of the matters discussed herein. Any investment decision should be made at the investor's sole discretion. To the extent permitted by law, Galt & Taggart, any other member of the Group and their respective directors, employees, affiliates, advisers and agents disclaim all liability whatsoever (in negligence or otherwise) for any loss or damages however arising, directly or indirectly, from any use of this document or its contents or otherwise arising in connection with this document, or for any act, or failure to act, by any party, on the basis of this document.

The information in this document is subject to verification, completion and change without notice and Galt & Taggart is not under any obligation to update or keep current the information contained herein. The delivery of this document shall not, under any circumstances, create any implication that there has been no change in the information since the date hereof or the date upon which this document has been most recently updated, or that the information contained in this document is correct as at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. No representation or warranty, expressed or implied, is made by Galt & Taggart or any other member of the Group, or any of their respective directors, employees, affiliates, advisers or agents with respect to the accuracy or completeness of such information.

The information provided and opinions expressed in this document are based on the information available as of the issue date and are solely those of Galt & Taggart as part of its internal research coverage. Opinions, forecasts and estimates contained herein are based on information obtained from third party sources believed to be reliable and in good faith, and may change without notice. Third party publications, studies and surveys generally state that the data contained therein have been obtained from sources believed to be reliable, but that there is no guarantee of the accuracy or completeness of such data. Accordingly, undue reliance should not be placed on any such data contained in this document. Neither Galt & Taggart, any other member of the Group, nor their respective directors, employees, affiliates, advisers or agents make any representation or warranty, express or implied, of this document's usefulness in predicting the future performance, or in estimating the current or future value, of any security or asset.

Galt & Taggart does, and seeks to do, and any other member of the Group may or seek to do business with companies covered in its research. As a result, investors should be aware of a potential conflict of interest that may affect the objectivity of the information contained in this document.

This document is confidential to clients of Galt & Taggart. Unauthorized copying, distribution, publication or retransmission of all or any part of this document by any medium or in any form for any purpose is strictly prohibited.

The recipients of this document are responsible for protecting against viruses and other destructive items. Receipt of the electronic transmission is at risk of the recipient and it is his/her responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Galt & Taggart

Address: 79 D. Agmashenebeli Avenue, Tbilisi 0102, Georgia

Tel: + (995) 32 2401 111

Email: gt@gt.ge