

# Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan  
February 22, 2016

## Economy

**Azerbaijan economy contracted 3.3% y/y in January, with non-oil GDP down 3.7% y/y and oil GDP down 2.4% y/y.** The contraction was driven by a strong decline in construction (-24.5% y/y), transport and storage (-12.3% y/y), and mining (-2.6% y/y). Positive contribution to growth came from trade (+4.3% y/y), information and communication (+7.9% y/y), and tourism (+5.1% y/y).

Nominal GDP for January 2015 was revised downward (by 5.2%), thereby lessening contraction figures for January 2016. In nominal terms, GDP in January 2016 increased 12.0% y/y to AZN 4.0bn, while in US\$ terms, it declined 44.6% y/y to US\$ 2.5bn.

### 2016 budget to be revised with US\$ 25.0/bbl oil price assumption

Azerbaijan is revising its 2016 budget to account for the lower oil price than originally assumed and the mid-December devaluation. The oil price assumption will be set at US\$ 25.0/bbl, compared to US\$ 50.0/bbl in the original document, resulting in a fall in budget revenues. At the same time, the government is planning to increase spending, as the second devaluation has resulted in price increases and the government wants to increase social spending. Increased expenditures will be financed by higher transfers from the Oil Fund, increased non-oil taxes, and higher customs receipts. At the same time, oil taxes and oil fund revenues will be lowered, pushing up the consolidated budget deficit.

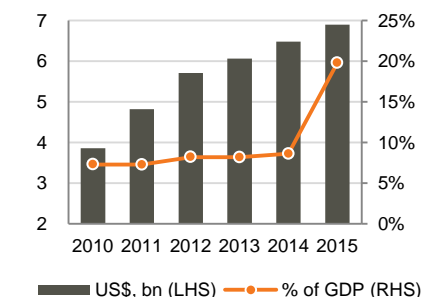
### Azerbaijan's external state debt increased to 19.8% of GDP in 2015

Azerbaijan's external state budget debt increased 6.4% y/y to US\$ 6.9bn in 2015. However, as a ratio to GDP, the figure is up from 8.6% in 2014 to 19.8% in 2015, as the dual devaluation in 2015 decreased the nominal size of economy in US\$ terms.

### Trade surplus shrank 69.5% y/y to US\$ 214.3mn in January 2016

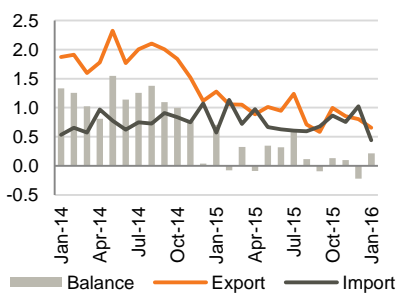
In January 2016, exports declined 48.6% y/y to US\$ 657.1mn, imports fell 22.9% y/y to US\$ 442.8mn, and the trade surplus shrank 69.5% y/y to US\$ 214.3mn. The fall in exports was broad-based, with mineral exports falling 48.2% y/y to US\$ 599.1mn and non-mineral exports falling 52.3% y/y to US\$ 58.0mn. On the imports side, the decline was driven by an 80.0% y/y fall in transportation imports and 56.3% y/y drop in foodstuff imports. Number of cars imported decreased from 4,090 in January 2015 to 437 in January 2016.

External state debt



Source: CBAR

Trade, US\$ bn



Source: AzSTAT

### Key macro indicators

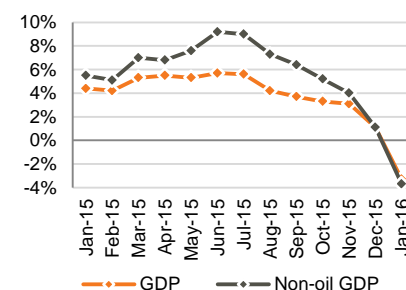
	1M16	2015	2014
GDP (% change)	-3.3%	1.1%	2.8%
NO* GDP (% change)	-3.7%	1.1%	7.0%
GDP per capita (ppp)	...	...	17,761
GDP per capita (US\$)	...	5,559	7,936
Population (mn)	9.7	9.7	9.6
Inflation (eop)	13.7%	7.7%	-0.1%
CAB (% of GDP)**	...	0.6%	13.9%
NO* CAB (% of NOGDP)**	...	-18.6%	-21.2%
Fiscal balance (% of GDP)	...	-5.3%	2.9%
NO* fiscal bal. (% of NOGDP)**	...	-34.0%	-38.4%
Gross reserves (US\$ bn)***	...	41.8	50.9

Source: Official data

\*Non-oil

\*\*As of 9M15, \*\*\*As of 3Q15

### Real GDP growth, % (YTD)



Source: AzSTAT

### International ranking of Azerbaijan

Ease of Doing Business # 63

Economic Freedom Index # 85 (moderately free)

Global Competitiveness Index # 40 (regional leader)

Source: World Bank, Heritage Foundation and World Economic Forum

### Azerbaijan sovereign credit ratings

<b>STANDARD &amp; POOR'S</b>  <b>BB+</b> Stable Jan-2016	<b>Moody's</b> INVESTORS SERVICE  <b>Ba1</b> Under review Feb-2016	<b>FitchRatings</b>  <b>BBB-</b> Stable Affirmed Aug-2015
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Source: Rating agencies



## Oil prices and exchange rate

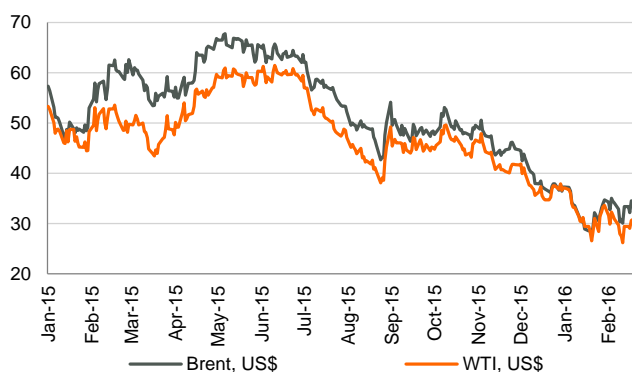
**Oil price:** Brent oil price was down 1.7% w/w to US\$ 32.8/bbl (down 45.5% y/y), while WTI oil price increased 0.6% w/w to US\$ 29.6/bbl (down 42.1% y/y). In AZN terms, Brent oil price was down 1.7% w/w to AZN 51.3 (up 8.6% y/y).

**Exchange rate:** On February 19, 2016, Central Bank set AZN/US\$ rate at 1.5635 (-0.7% w/w) and AZN/EUR at 1.7395 (-2.2% w/w). At Bloomberg AZN/US\$ was trading at 1.5635 (0.0% w/w) while AZN/EUR was trading at 1.7600 (-1.5% w/w).

**Monetary policy rate:** Monetary policy rate remained unchanged at 5.0%.

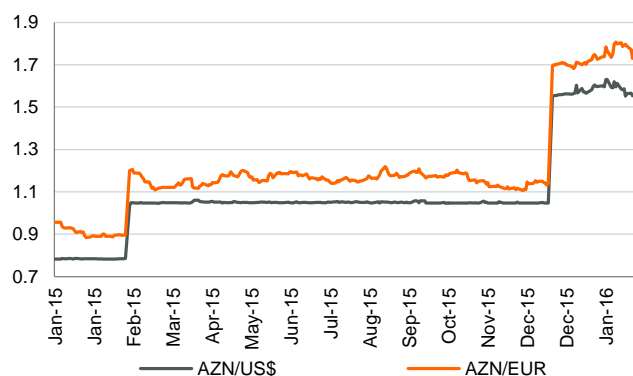
**FX auctions:** In three FX auctions organized by the Central Bank over the last week, the regulator offered US\$ 600mn, while demand was limited to US\$ 105.9mn, which is 90.9% higher than in the previous week but still below the total offer.

Crude oil prices (US\$/bbl)



Source: Bloomberg

Exchange rates



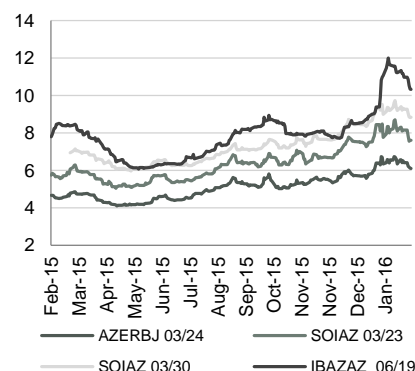
Source: Bloomberg

## Fixed income

**Corporate Eurobonds:** State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 8.8% yield, trading at 84.9 (+3.6% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 87.1 (+2.0% w/w), yielding 10.3%.

**Azerbaijan Sovereign Eurobonds** (AZERBJ 03/24) closed at 91.4 (+2.1% w/w) at 6.1% yield to maturity.

**Azerbaijan Eurobonds, YTM (%)**

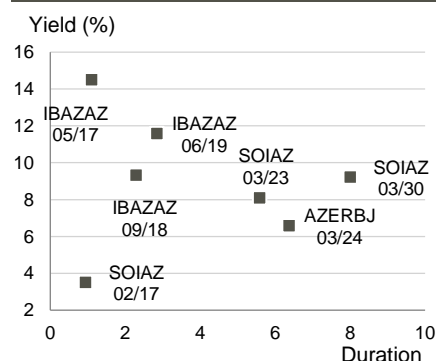


Source: Bloomberg

	Eurobonds					
	SOIAZ 02/17	SOIAZ 03/23	SOIAZ 03/30	IBAZAZ 05/17	IBAZAZ 09/18	IBAZAZ 06/19
Amount, US\$ mn	500	1000	750	100	198	500
Issue date	Feb-2012	Mar-2013	Mar-2015	May-2007	Sep-2013	Jun-2014
Maturity date	Feb-2017	Mar-2023	Mar-2030	May-2017	Sep-2018	Jun-2019
Coupon, %	5.450%	4.750%	6.950%	6.170%	7.750%	5.625%
Fitch/S&P/Moody's	BBB-/BB-/Ba1	BBB-/BB-/Ba1	BBB-/BB-/Ba1	BB-/Ba3	BB-/Ba3	BB-/Ba3
Mid price, US\$	101.8	84.6	84.9	91.1	93.4	87.1
Mid yield, %	3.6	7.6	8.8	14.4	10.7	10.3
Z-spread, bps	310.3	631.1	708.3	1,254.6	821.7	1,045.4

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	BBB-/BB+/Ba1	91.4	6.1	462.1
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	105.3	5.7	445.7
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	120.4	1.1	-239.2
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	101.5	3.6	338.3
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	113.6	3.4	232.7
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	119.4	3.1	194.0
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	103.9	4.0	410.7
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	105.6	4.4	319.4
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	99.5	5.2	363.9

Source: Bloomberg

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