

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
December 14, 2015

Economy

2016 budget approved by the President

On December 7, 2015, the President of Azerbaijan approved the budget for 2016 which had passed in parliament on October 20, 2015. The document assumes a US\$ 50/bbl oil price and 1.05 US\$/AZN exchange rate. Consolidated budget revenues are expected to be AZN 16.7bn (US\$ 15.9bn), compared to the 2014 actual figure of AZN 23.0bn (US\$ 29.4bn), and expenditures are set at AZN 19.9bn (US\$ 19.0bn), compared to the 2014 actual figure of AZN 21.3bn (US\$ 27.2bn). Of the resulting AZN 3.2bn deficit (5.5% of GDP), AZN 1.5bn is budgeted to be financed by tapping SOFAZ reserves. Transfers from SOFAZ, which reached AZN 9.3bn (US\$ 11.9bn) in 2014, are set at AZN 6.0bn (US\$ 5.7bn) in 2016.

SOCAR's tax payments flat in November 2015

SOCAR's tax payments to the state budget, which in 2014 accounted for 26.1% of total taxes and 8.1% of consolidated budget revenues, fell 6.2% y/y to AZN 133.6mn in November 2015. Payments remained relatively flat, following a partial recovery from the lows of 1Q15. In 10M15, SOCAR tax payments amounted to AZN 1.4bn (-17.7% y/y).

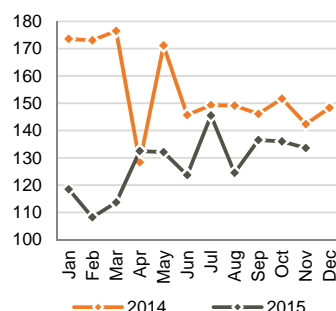
Restructuring-related decline in loans continued in October 2015

Total loans by commercial banks declined to AZN 18.6bn in October 2015 from AZN 19.1bn in the previous month. According to the central bank, the fall is related to the restructuring process of the major lender in Azerbaijan – International Bank of Azerbaijan. Construction and real estate, along with industry and manufacturing, were the main sectors experiencing a contraction in loans. Excluding state banks, total loans increased 0.2% m/m to AZN 12.2bn. At AZN 1.3bn, the share of non-performing loans to total loans inched slightly down in October 2015 to 7.0%.

Total deposits and deposit dollarization slightly down

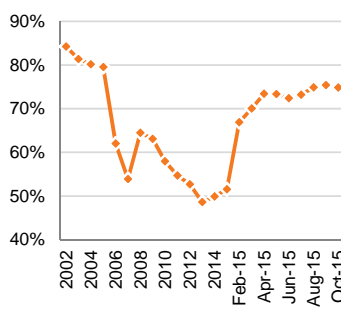
With 2.8% m/m increase in AZN demand deposits and 10.0% m/m fall in FX demand deposits, the deposit dollarization ratio retreated to 74.8% in October 2015 (from 75.4% in September 2015). Overall, deposits in AZN terms decreased 1.9% m/m in October 2015.

SOCAR tax payments, AZN mn



Source: SOCAR

Deposit dollarization



Source: CBAR

Key macro indicators

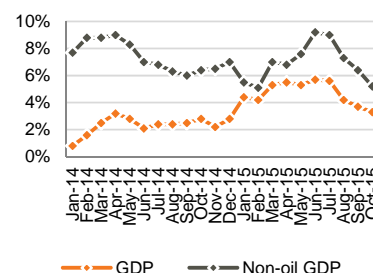
	10M15	2014	2013
GDP (% change)	3.3%	2.8%	5.8%
NO* GDP (% change)	5.2%	7.0%	10.0%
GDP per capita (ppp)	...	17,761	17,135
GDP per capita (US\$)	...	7,936	7,934
Population (mn)	9.7	9.6	9.5
Inflation (eop)	3.4%	-0.1%	3.6%
CAB (% of GDP)**	0.2%	13.9%	16.6%
NO* CAB (% of NOGDP)**	-21.8%	-21.2%	-29.6%
Fiscal balance (% of GDP)**	-3.3%	2.9%	1.8%
NO* fiscal bal. (% of NOGDP)**	-34.0%	-38.4%	-46.5%
Gross reserves (US\$ bn)***	41.8	50.9	50.0

Source: Official data

*Non-oil

As of 1H15, *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

 BBB- Negative Affirmed Jul-2015	 Baa3 Stable Affirmed Dec-2015	 BBB- Stable Affirmed Aug-2015
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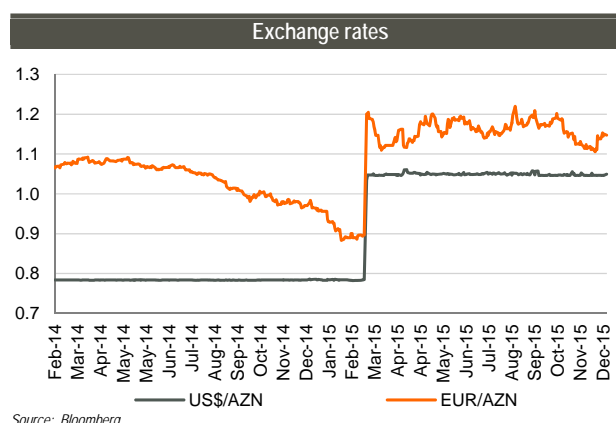
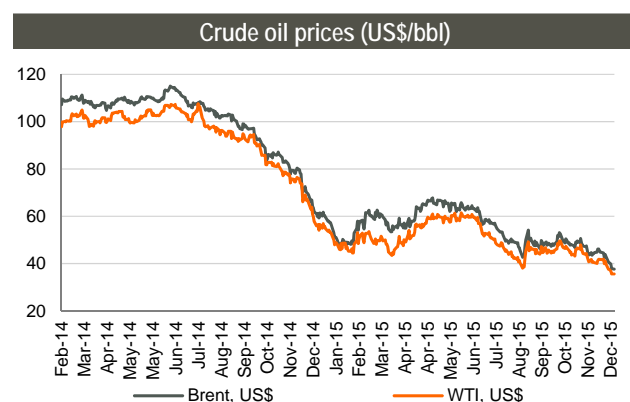
Source: Rating agencies

Oil prices and exchange rate

Oil price: Brent oil price was down 11.8% w/w to US\$ 37.9/bbl (down 40.4% y/y), while WTI oil price decreased 11.8% w/w to US\$ 35.6/bbl (down 40.6% y/y). In AZN terms, Brent oil price was down 11.8% w/w to AZN 39.7 (down 20.5% y/y).

Exchange rate: Remaining committed to the implicit peg of a basket of US\$ (95%) and Euro (5%), Central Bank set US\$/AZN rate at 1.0495 (0.0% w/w) and EUR/AZN at 1.1478 (-0.0% w/w). On Bloomberg, US\$/AZN was flat at 1.01466 while EUR/AZN was trading at 1.1500 (+1.1% w/w).

Monetary policy rate: Monetary policy rate remained unchanged at 3.0%.

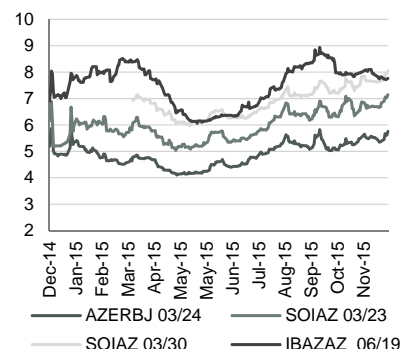


Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 8.1% yield, trading at 90.8 (-3.3% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 93.6 (+0.2% w/w), yielding 7.8%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 93.4 (-2.5% w/w) at 5.8% yield to maturity.

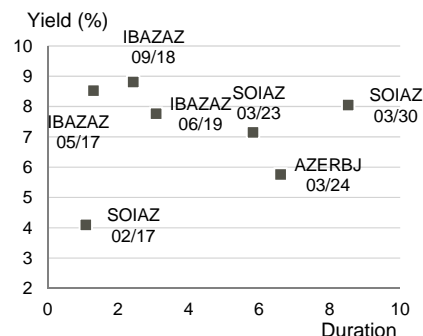
Azerbaijan Eurobonds, YTM (%)



	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+/-	-/-/B1	-/-/Ba3	BB -/Ba3
Mid price, US\$	101.5	86.6	90.8	96.9	97.4	93.6
Mid yield, %	4.1	7.1	8.1	8.5	8.8	7.8
Z-spread, bps	349.3	526.6	573.9	685.2	769.7	655.3

Source: Bloomberg

Azerbaijan Eurobond universe



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-/BBB-/Baa3	93.4	5.8	370.2
Georgia	500	6.875%	4/12/2021	BB-/BB-/Baa3	105.7	5.6	389.1
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	120.0	1.3	-225.8
Croatia	1,250	3.875%	5/30/2022	BB/BB/Baa1	100.7	3.8	329.5
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Baa1	114.6	3.3	161.9
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	118.1	3.5	168.5
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Baa1	104.1	4.0	243.9
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	105.8	4.4	270.2
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	98.2	5.4	328.2

Source: Bloomberg

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