

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
January 25, 2016

Economy

Real GDP grew 1.1% in 2015

In 2015, Azerbaijan's real GDP posted a 1.1% y/y growth rate, the slowest level since 1995, excluding 0.1% y/y growth in 2011.

Non-oil GDP, constrained by 13.4% y/y contraction in construction, grew 1.1% y/y in 2015, the lowest rate since the start of record keeping on non-oil GDP growth rates in 2000. Transportation and storage was another sector that had a negative contribution to growth, while trade (+10.9% y/y), manufacturing (+7.7% y/y), and agriculture (+6.6% y/y) were the main drivers of growth.

Oil GDP grew 1.2% y/y in 2015, recovering from the low base of the previous year and posting the highest growth rate of the last 5 years.

Azerbaijan's GDP in nominal US\$ terms is down 29.6% y/y in 2015

Falling oil prices and radical devaluations in 2015 resulted in GDP in nominal US\$ terms in Azerbaijan to contract from US\$ 75.2bn in 2014 to US\$ 53.0bn in 2015 (-29.6%). This has resulted in a decline in GDP per capita from US\$ 7,936 in 2014 to US\$ 5,559 in 2015.

Consolidated budget posted AZN 2.9bn (5.3% of GDP) deficit in 2015

According to the Ministry of Finance, Azerbaijan's consolidated budget revenue was AZN 18.2bn, 12.1% less than budgeted and expenditure was AZN 21.1bn, 18.7% less than budgeted. The resulting deficit at AZN 2.9bn (5.3% of GDP) was 44.9% lower than originally budgeted.

Central Bank reserves fell to US\$ 5.0bn in December 2015

Central Bank reserves declined further in December 2015 to US\$ 5.0bn (-19.7% m/m), the lowest level since mid-2009. Overall, the Central Bank lost US\$ 8.7bn in 2015 and US\$ 10.2bn since the peak in July 2014.

Trade surplus declined to US\$ 2.2bn in 2015

According to the Customs Committee, Azerbaijan's manufacturing exports decreased 47.7% y/y in 2015 to US\$ 11.4bn, while imports increased 0.4% y/y to US\$ 9.2bn. As a result, the trade surplus narrowed from US\$ 12.6bn in 2014 to US\$ 2.2bn in 2015 (-82.6% y/y).

Key macro indicators

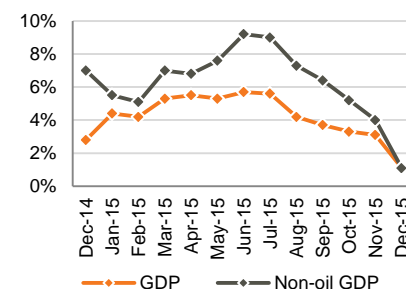
	2015	2014	2013
GDP (% change)	1.1%	2.8%	5.8%
NO* GDP (% change)	1.1%	7.0%	10.0%
GDP per capita (ppp)	...	17,761	17,135
GDP per capita (US\$)	5,559	7,936	7,934
Population (mn)	9.7	9.6	9.5
Inflation (eop)	7.7%	-0.1%	3.6%
CAB (% of GDP)**	0.6%	13.9%	16.6%
NO* CAB (% of NOGDP)**	-18.6%	-21.2%	-29.6%
Fiscal balance (% of GDP)	-5.3%	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 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)

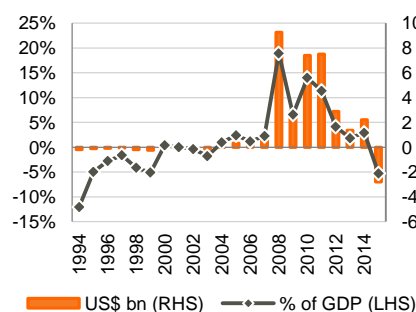
Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

STANDARD & POOR'S BBB- Negative Affirmed Jul-2015	Moody's INVESTORS SERVICE Baa3 Stable Affirmed Dec-2015	FitchRatings BBB- Stable Affirmed Aug-2015
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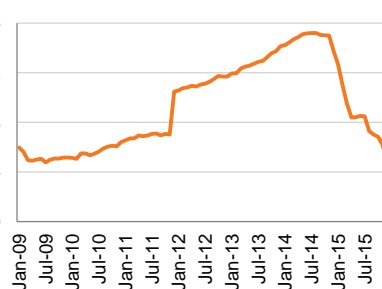
Source: Rating agencies

Consolidated budget balance



Source: IMF, Ministry of Finance, AzSTAT

CBAR reserves, US\$ bn



Source: CBAR



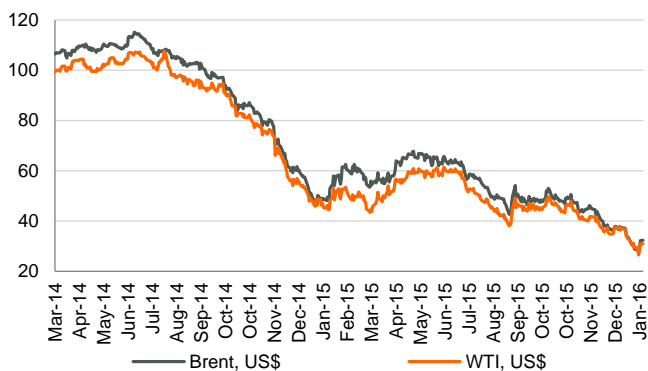
Oil prices and exchange rate

Oil price: Brent oil price was up 11.2% w/w to US\$ 32.2/bbl (down 33.7% y/y), while WTI oil price increased 5.3% w/w to US\$ 31.0/bbl (down 32.6% y/y). In AZN terms, Brent oil price was down 13.1% w/w to AZN 51.4 (up 35.1% y/y).

Exchange rate: On January 22, 2016, Central Bank set AZN/US\$ rate at 1.6028 (+2.1% w/w) and AZN/EUR at 1.7365 (+1.6% w/w). At Bloomberg AZN/US\$ was trading at 1.5974 (+1.7% w/w) while AZN/EUR was trading at 1.7247 (+0.6% w/w).

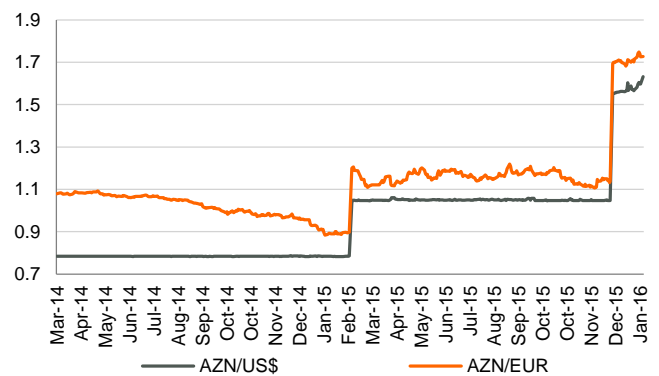
Monetary policy rate: Monetary policy rate remained unchanged at 3.0%.

Crude oil prices (US\$/bbl)



Source: Bloomberg

Exchange rates



Source: Bloomberg

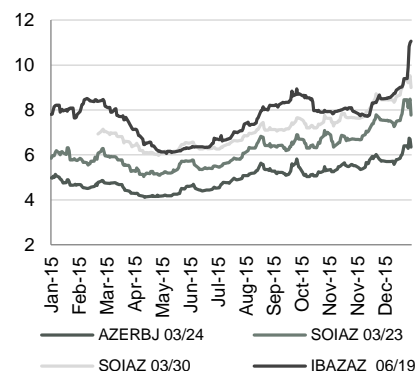


Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 9.0% yield, trading at 83.8 (+2.8% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 84.8 (-5.0% w/w), yielding 11.2%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 90.1 (+0.5% w/w) at 6.3% yield to maturity.

Azerbaijan Eurobonds, YTM (%)

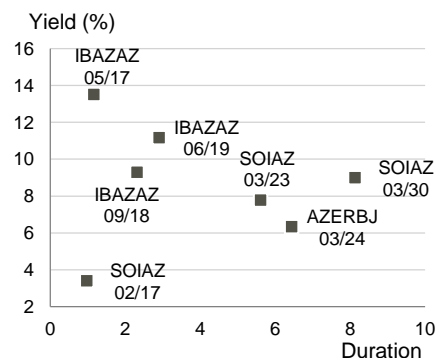


Source: Bloomberg

	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+ /-	-/-/B1	-/-/Ba3	BB /-/Ba3
Mid price, US\$	102.1	83.7	83.8	91.6	96.4	84.8
Mid yield, %	3.4	7.8	9.0	13.5	9.3	11.2
Z-spread, bps	274.2	686.6	694.8	1138.8	786.5	994.6

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-/BBB-/Baa3	90.1	6.3	449.8
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	103.0	6.2	464.7
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	120.1	1.2	-237.2
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	101.8	3.5	317.4
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	113.5	3.5	192.4
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	118.0	3.4	183.2
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	102.9	4.2	285.5
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	105.4	4.4	295.6
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	98.5	5.3	345.9

Source: Bloomberg

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