

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
April 3, 2017

Economy

Current account deficit down to US\$ 250.1mn in 4Q16

In 4Q16 Azerbaijan's current account deficit narrowed 46.0% y/y to US\$ 250.1mn. The improvement was driven by a 153.3% y/y increase in the trade surplus. Oil and gas exports were up 14.5% y/y to US\$ 3.3bn, while imports were down 43.4% y/y to US\$ 0.5bn. Non-oil sectors, however, posted a US\$ 1.5bn deficit, up 1.9% y/y.

In the services balance, on the other hand, the oil and gas sector led to a widening of the deficit to US\$ 0.9bn (+11.2% y/y) in 4Q16. The oil and gas services deficit widened 35.9% y/y to US\$ 0.8bn, while the non-oil service balance narrowed 53.5% y/y to US\$ 0.1bn.

FDI inflows up, capital outflows down

Net other investments outflows were down 34.8% y/y to US\$ 1.4bn, portfolio investment outflows were down 90.2% y/y to US\$ 45.9mn, and reserves increased by US\$ 0.7bn in 4Q16. These outflows and the current account deficit were financed by a 260.6% y/y increase in net FDI inflows (US\$0.8bn) and 121.5% y/y increase in inflows from the "errors and omissions" category (US\$ 1.7bn).

Non-oil FDI inflows were up 252.5% y/y to US\$ 568.2mn in 4Q16.

Annual current account deficit reached US\$ 1.4bn in 2016

Driven by falling oil and gas exports, Azerbaijan's current account balance posted a US\$ 1.4bn deficit in 2016, the highest since 2004 in nominal US\$ terms. The oil and gas sector current account surplus narrowed 32.9% y/y in 2016 to US\$ 4.4bn, while the non-oil current account deficit retreated 15.0% y/y to US\$ 5.8bn.

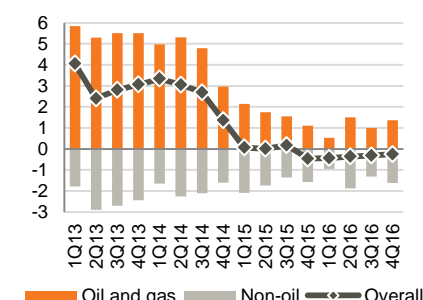
Annual deficit financed by errors and omissions inflows, FDI, and reserves

In 2016 net other investments were down 49.3% y/y to US\$ 5.2bn, while portfolio investment outflows were up 24.3% y/y to US\$ 0.5bn. These outflows and the current account deficit were financed by net FDI inflows (US\$1.9bn, +145.1% y/y), inflows from the "errors and omissions" category (US\$ 3.6bn), and reserves (US\$ 0.5bn).

Non-oil FDI inflows were up 106.4% y/y to US\$ 1.7bn in 2016.

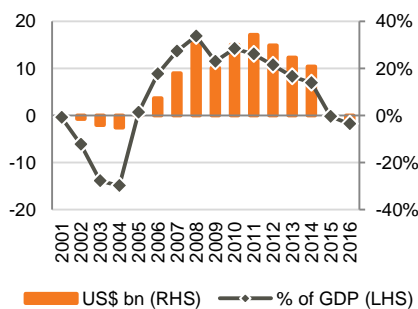
As a ratio to GDP, the current account deficit was up to 3.6% in 2016 from 0.4% in 2015, while the non-oil current account deficit was up to 23.3% from 18.3% in the previous year.

Current account balance, quarterly, US\$ bn



Source: CBAR

Current account balance, annual



Source: AzSTAT, CBAR

Key macro indicators

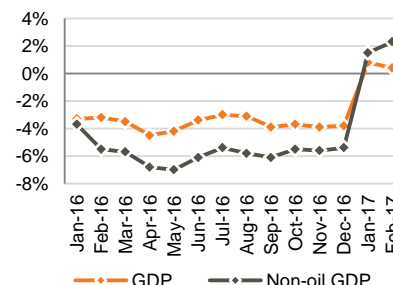
	2M16	2016	2015
GDP (% change)	0.4%	-3.8%	1.1%
NO* GDP (% change)	2.3%	-5.4%	1.1%
GDP per capita (ppp)	17,993
GDP per capita (US\$)	...	3,897	5,559
Population (mn)	...	9.8	9.7
Inflation (eop)	13.0%	15.5%	7.7%
CAB (% of GDP)	...	-3.6%	-0.4%
NO* CAB (% of NOGDP)	...	-23.3%	-18.3%
Fiscal balance (% of GDP)	...	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

** 9M16

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

 BB+ Negative Jul-2016	 Ba1 Negative Apr-2016	 BB+ Negative Aug-2016
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Source: Rating agencies



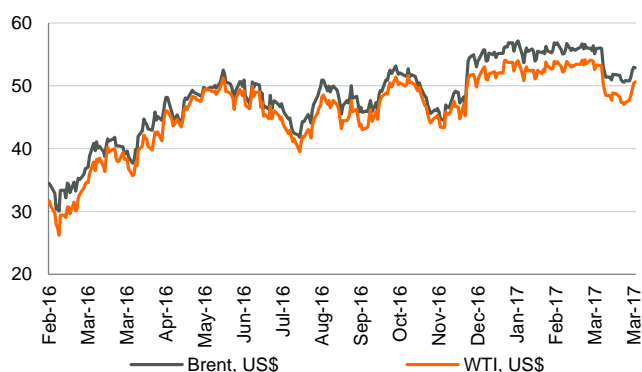
Oil prices and exchange rate

Oil price: Brent oil price was up 4.0% w/w to US\$ 52.8/bbl (up 33.4% y/y), while WTI oil price increased 6.9% w/w to US\$ 50.6/bbl (up 32.0% y/y). In AZN terms, Brent oil price was up 5.1% w/w to AZN 91.0 (up 48.9% y/y).

Exchange rate: On March 31, 2017, Central Bank's AZN/US\$ rate was 1.7244 (+0.2% w/w) and AZN/EUR rate was 1.8407 (-0.7% w/w). At Bloomberg AZN/US\$ was trading at 1.7223 (+1.0% w/w) while AZN/EUR was trading at 1.8296 (-1.2% w/w).

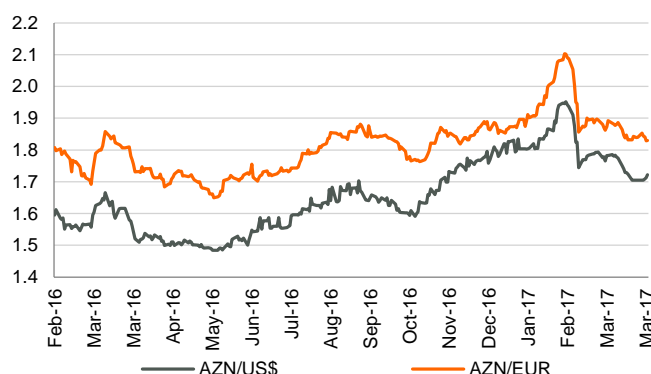
Monetary policy rate: Monetary policy rate was unchanged at 15.0%.

Crude oil prices (US\$/bbl)



Source: Bloomberg

Exchange rates



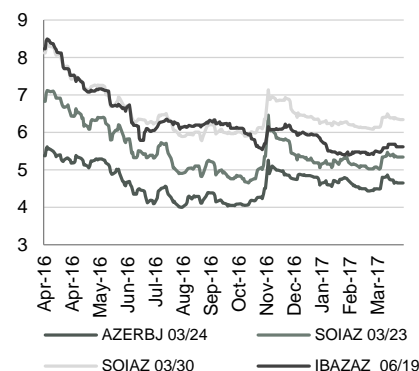
Source: Bloomberg

Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.3% yield, trading at 105.3 (+0.5% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 100 (+0.1% w/w), yielding 5.6%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 100.6 (+0.5% w/w) at 4.6% yield to maturity.

Azerbaijan Eurobonds, YTM (%)

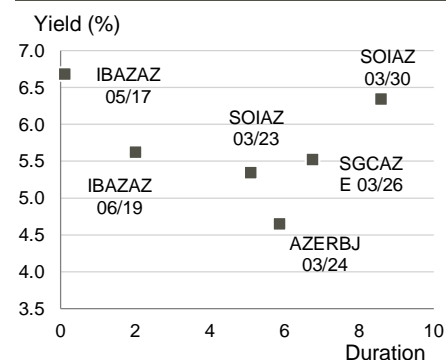


Source: Bloomberg

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\$	97.0	105.3	99.9	100.0	109.6	109.5	100.6
Mid yield, %	5.3	6.3	6.7	5.6	5.5	5.5	4.6
Z-spread, bps	327.0	396.7	558.5	399.9	327.0	327.9	250.0

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	100.6	4.6	250.0
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	110.8	3.9	205.4
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	119.7	0.4	-226.5
Croatia	1,250	3.875%	5/30/2022	BB/BB/Baa2	109.5	1.9	167.8
Hungary	3,000	6.375%	3/29/2021	BBB-/BBB-/Baa3	112.7	3.0	107.7
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	116.1	3.2	117.1
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	106.8	2.7	91.2
Turkey	2,000	5.625%	3/30/2021	BB+/BB/Ba1	104.8	4.3	242.0
Kazakhstan	2,500	5.125%	7/21/2025	BBB/BBB-/Baa3	108.3	3.9	171.5

Source: Bloomberg

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