

Azerbaijan Economy

Trade and Budget

Azerbaijan | Economy
 August 1, 2014

Trade: non-oil balance improves

According to the Customs Committee, Azerbaijan's merchandise exports increased by 10% y/y in June 2014, while imports decreased by 25% y/y. For 1H14, however, total exports fell by 6% y/y, while imports declined by 20% y/y. The growth in exports in June was mainly driven by agricultural products and minerals (crude oil, natural gas, and oil products).

Contraction in imports, on the other hand, was a result of slower economic growth and new regulations that ban imports of older used cars and stricter rules on consumer loans. For example, the fall in imports of iron and steel, glass and glassware, various machinery, and wood, among others, could be explained by falling demand in the construction sector. In this category, imports of cement also fell dramatically. However, this was probably caused by the inauguration of the Akkord Cement plant in the Qazakh district resulting in the substitution of imported cement with local cement.

Car imports in US\$ terms, declined by 26% y/y in June, while the number of cars imported declined by 54% to 3,783 units. Imports of electronic consumer goods such as TVs, cameras, and sound recorders fell for a fourth month in a row in June, decreasing by 44% y/y after a fall of 55% y/y in May. This can probably be explained by the new strict regulations on consumer credit implemented in early 2014.

Following a pick-up in April, the non-energy trade balance improved for the second consecutive month on the back of falling imports. The trade deficit decreased to US\$ 0.4bn in June from US\$ 0.9bn in April. As the factors behind the current trend are expected to remain in place for the remainder of the year, the trade deficit will keep contracting.

Budget: non-oil balance improves

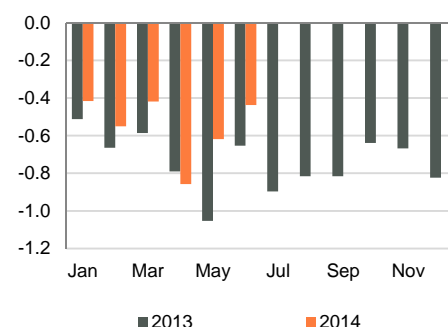
Azerbaijan's consolidated budget posted a surplus of 5.7% of GDP in 1H14 compared to 5.2% in 1H13 and 3.6% in 1Q14. Almost flat expenditure, along with slightly higher revenue compared to 1H13, were the main factors behind the surplus. On the revenue side, non-oil revenues increased by more than 17% from US\$ 3.8bn in 1H13 to US\$ 4.5bn in 1H14.

Oil revenue, however, declined by 2.8% from US\$ 10.5bn in 1H13 to US\$ 10.2bn in 1H14. The main factor behind the falling oil revenue was the 3.4% decline in State Oil Fund revenues, which fell from US\$ 8.6bn in 1H13 to US\$ 8.3bn in 1H14. Nevertheless, with expenditures falling more sharply, the Fund was able to post a surplus and increase its reserves from US\$ 35bn in 1H13 to US\$ 38bn in 1H14. The Fund's gold reserves also increased from 0.7mn ounces in 1H13 to 1.0mn ounces in 1H14.

Ekaterina Gazadze
 Head of Research
 egazadze@bog.ge
 +995 322 444 444 ext. 3760

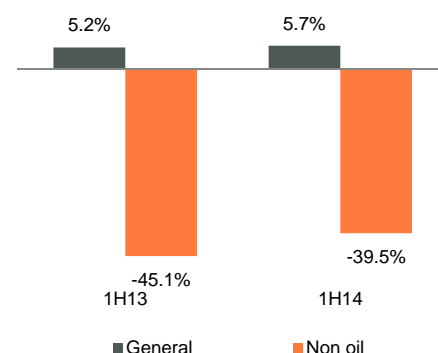
Alim Hasanov
 Economist
 ahasanov@bog.ge
 +995 322 444 444 ext. 3933
 +994 12 4048944

Figure 1: Non-energy trade balance, US\$ bn



Source: Customs Committee

Figure 2: Consolidated budget balance, %

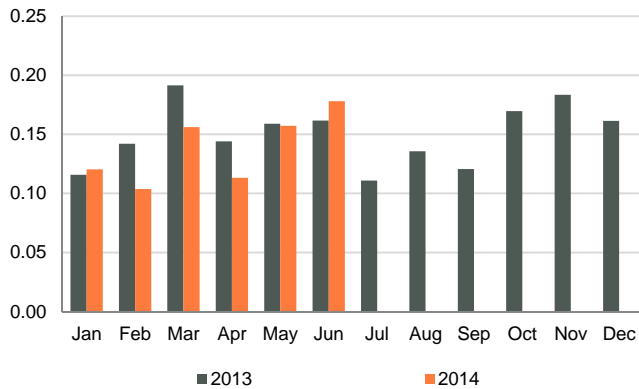


Source: Ministry of Finance, AzSTAT



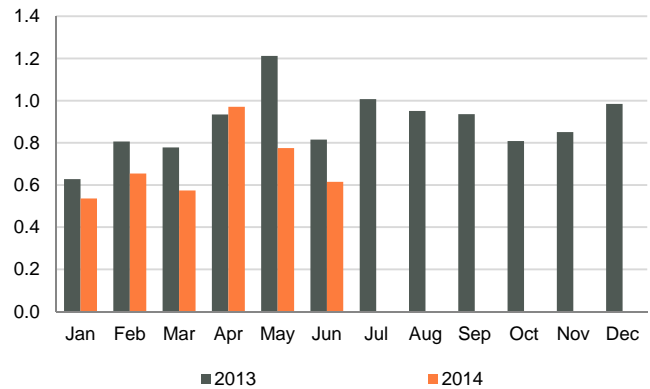
Supplementary charts

Figure 3: Non-energy exports, US\$ bn



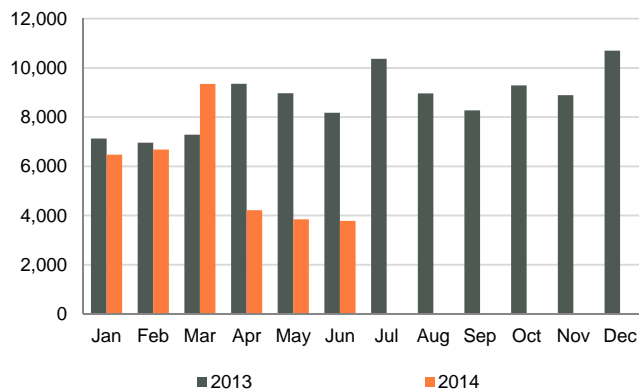
Source: Customs Committee

Figure 4: Total imports, US\$ bn



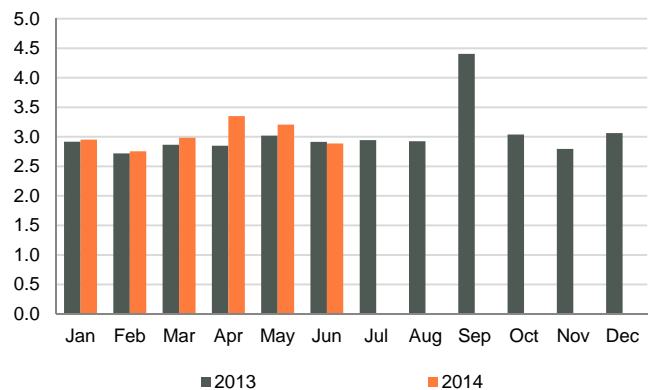
Source: Customs Committee

Figure 5: Car imports, units



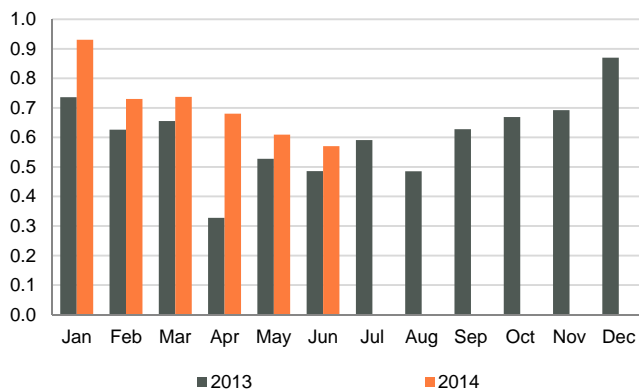
Source: Customs Committee

Figure 6: Crude oil exports, mn ton



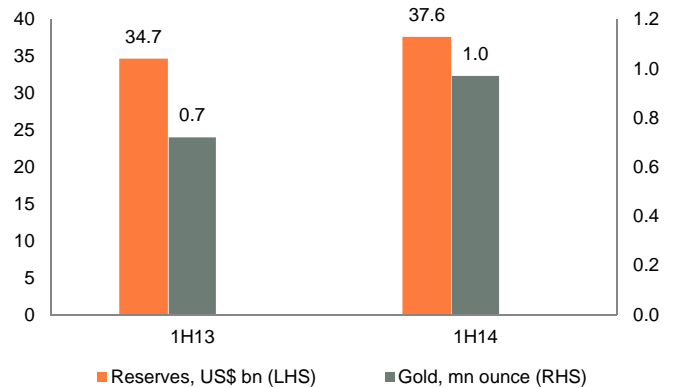
Source: Customs Committee

Figure 7: Natural gas exports, bcm



Source: Customs Committee

Figure 8: SOFAZ reserves



Source: SOFAZ



Disclaimer

This document is strictly confidential and has been prepared by JSC Bank of Georgia ("Bank of Georgia") 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.

Bank of Georgia 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 Bank of Georgia 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 Bank of Georgia or its 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 Bank of Georgia or any of its 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, Bank of Georgia and its 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 Bank of Georgia 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 Bank of Georgia, or any of its 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 Bank of Georgia 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 Bank of Georgia, nor its 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.

Bank of Georgia does, and seeks 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 Bank of Georgia. 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.

Head of Research

Ekaterina Gazadze | egazadze@bog.ge

Address: 29a Gagarin Str. Tbilisi 0160, Georgia

Tel: + (995) 32 2444 444

Email: Research@bog.ge

Economist

Eva Bochorishvili | evabochoishvili@bog.ge

Economist

Alim Hasanov | ahasanov@bog.ge

Senior Associate

Giorgi Nakashidze | gnakashidze@bog.ge

Senior Associate

Giorgi Iremashvili | giremashvili@bog.ge