

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
September 12, 2016

Economy

Refinancing rate up from 9.5% to 15.0%

Central Bank of Azerbaijan increased its key refinancing rate from 9.5% to 15.0%, effective September 14, 2016. This move marks the fourth rate hike by CBAR in 2016, from as low as 3.0% in the beginning of the year.

In its statement, CBAR announced that given the changes in domestic and foreign factors affecting inflation, it deems necessary to implement some anti-inflationary policies, of which the rate increase is one, while an increase in FX supply at auctions was another.

Tax revenues slightly above the budgeted level

According to the Ministry of Taxes, its tax revenues in 8M16 stood at AZN 4.4bn, or 100.3% of the budgeted figure. However, compared to 8M15, revenues are down 4.7% y/y. In monthly terms, revenues in August 2016 were up 8.8% y/y to AZN 0.5bn.

Banks' foreign assets more than halved over a four-month period

After four consecutive months of decline, commercial banks' foreign assets are down 52.1% to US\$ 2.8bn as of July 2016, compared to a peak of US\$ 5.9bn in March 2016. In month-to-month terms, foreign assets were down 10.1% in July. Markedly, foreign liabilities were also down 5.5% m/m to US\$ 4.1bn.

Loan portfolio down 9.3% m/m in July 2016

Commercial banks' loan portfolio was down 9.3% m/m (-17.2% y/y) in July 2016 to AZN 16.7bn, driven by a 23.0% m/m decrease in loans to construction and real estate and a 10.8% fall in loans to households (excluding mortgage loans).

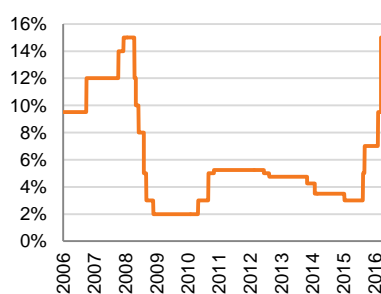
Dollarization ratios broadly flat

Compared to the previous month, deposit and loan dollarization ratios were broadly flat in July 2016, with the deposit dollarization ratio at 80.0% and the loan dollarization ratio at 48.3%. Excluding deposits of non-residents and the central government, the deposit dollarization ratio was at 72.1%.

NPL ratio up to 9.0% in July 2016

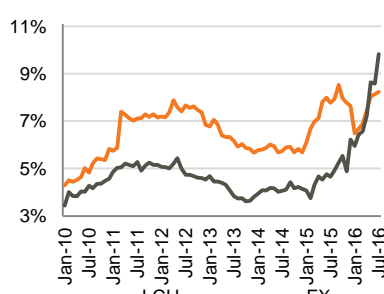
Non-performing loans were down 2.3% m/m in July 2016 to AZN 1.5bn, driven by an 8.6% m/m decrease in NPL in local currency (LC) loans, whereas problematic FX loans were up 4.2% m/m. As a result, the NPL ratio in LC loans remained relatively flat at 8.2%, while in FX, the ratio was up to 9.8% in July 2016 (from 8.6% in June 2016). In aggregate terms, as total loans decreased, the NPL ratio increased further to 9.0% in July 2016.

CBAR refinancing rate



Source: CBAR

NPL ratios



Source: CBAR

Key macro indicators

	7M16	2015	2014
GDP (% change)	-3.0%	1.1%	2.8%
NO* GDP (% change)	-5.4%	1.1%	7.0%
GDP per capita (ppp)	...	17,993	17,762
GDP per capita (US\$)	...	5,739	8,055
Population (mn)	...	9.7	9.6
Inflation (eop)	11.3%	7.7%	-0.1%
CAB (% of GDP)**	-5.4%	-0.4%	13.9%
NO* CAB (% of NOGDP)***	-18.4%	-18.4%	-16.5%
Fiscal balance (% of GDP)***	3.8%	-5.3%	2.9%
NO* fiscal bal. (% of NOGDP)***	-20.8%	-33.7%	-38.1%
Gross reserves (US\$ bn)***	39.4	38.6	50.9

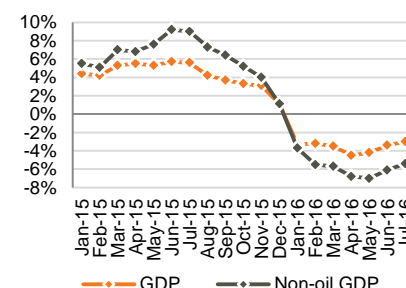
Source: Official data

* Non-oil

**1Q16

***1H16

Real GDP growth, % (YTD)



Source: AzSTAT

International ranking of Azerbaijan

Ease of Doing Business # 63

Economic Freedom Index # 91 (moderately free)

Global Competitiveness Index # 40 (regional leader)

Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

STANDARD & POOR'S BB+ Stable Jan-2016	Moody's INVESTORS SERVICE Ba1 Negative Apr-2016	FitchRatings BB+ Negative Aug-2016
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Source: Rating agencies



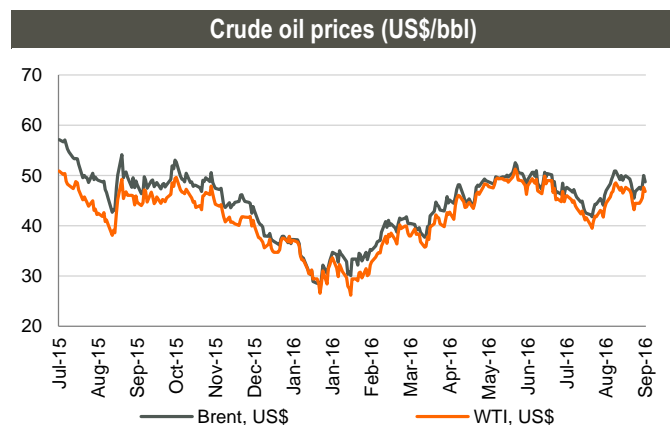
Oil prices and exchange rate

Oil price: Brent oil price was up 4.0% w/w to US\$ 48.7/bbl (up 2.4% y/y), while WTI oil price increased 5.3% w/w to US\$ 46.8/bbl (up 6.0% y/y). In AZN terms, Brent oil price was up 3.2% w/w to AZN 81.2 (up 62.8% y/y).

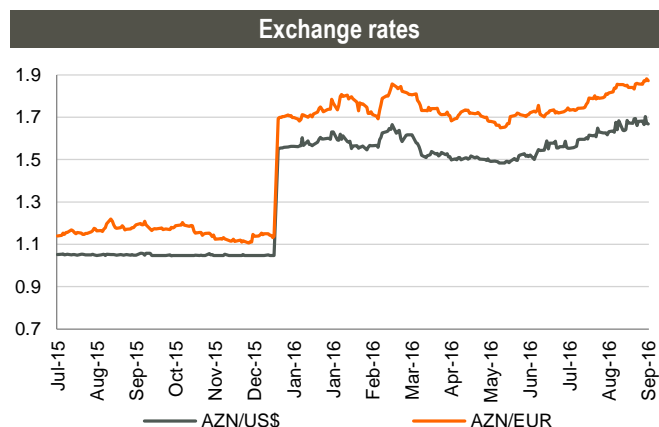
Exchange rate: On September 9, 2016, Central Bank set AZN/US\$ rate at 1.6403 (+0.3% w/w) and AZN/EUR at 1.8498 (+0.9% w/w). At Bloomberg AZN/US\$ was trading at 1.6675 (-0.7% w/w) while AZN/EUR was trading at 1.8725 (+0.8% w/w).

Monetary policy rate: Monetary policy rate was increased from 9.5% to 15.0%.

FX auctions: In two FX auctions organized by the Central Bank over the last week, State Oil Fund and Central Bank sold US\$ 350.0mn to commercial banks.



Source: Bloomberg



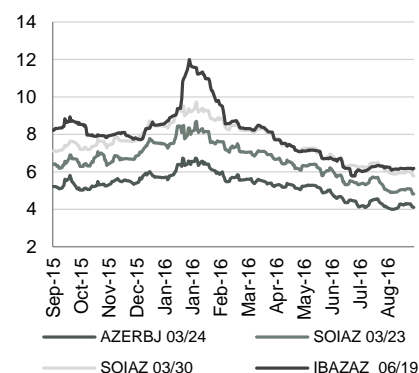
Source: Bloomberg

Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 5.9% yield, trading at 110.1 (+1.3% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 98.6 (+0.0% w/w), yielding 6.2%.

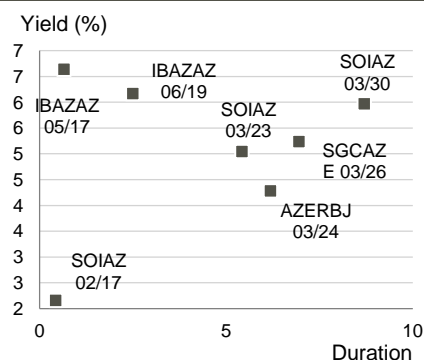
Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 103.7 (+0.8% w/w) at 4.2% yield to maturity.

Azerbaijan Eurobonds, YTM (%)



Source: Bloomberg

Azerbaijan Eurobond universe



Source: Bloomberg

	Eurobonds						
	SOIAZ 02/17	SOIAZ 03/23	SOIAZ 03/30	IBAZAZ 05/17	IBAZAZ 06/19	SGCAZE 03/26	AZERBJ 03/24
Amount, US\$ mn	97.1	1000	750	100	500	1,000	1,250
Issue date	Feb-2012	Mar-2013	Mar-2015	May-2007	Jun-2014	Mar-16	Mar-14
Maturity date	Feb-2017	Mar-2023	Mar-2030	May-2017	Jun-2019	Mar-26	Mar-24
Coupon, %	5.450%	4.750%	6.950%	6.170%	5.625%	6.875%	4.750%
Fitch/S&P/Moody's	BB+/BB+/Ba1	BB+/BB+/Ba1	BB+/BB+/Ba1	BB-/Ba3	BB-/Ba3	BB+/-/Ba1	BB+/BB+/Ba1
Mid price, US\$	101.3	99.4	110.1	99.8	98.6	113.6	103.7
Mid yield, %	2.2	4.9	5.9	6.5	6.2	5.1	4.2
Z-spread, bps	19.2	346.2	423.8	446.3	507.5	359.5	275.3

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	103.7	4.2	275.3
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	112.5	3.9	260.1
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	121.3	0.5	-240.3
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	108.1	2.3	235.9
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	115.3	2.8	142.3
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	121	2.6	131.5
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	108.2	2.6	141.9
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	107.7	3.8	252.3
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	113.1	3.4	193.2

Source: Bloomberg

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