

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
May 1, 2017

Economy

Consolidated budget deficit at 7.2% of GDP

Azerbaijan's consolidated budget revenues were up 26.3% y/y to AZN 5.6bn (37.6% of GDP) in 1Q17 (44.3% of GDP in 1Q16), while expenditures were up 101.7% y/y to AZN 6.8bn, leading to a AZN 1.1bn deficit (7.2% of GDP), compared to a AZN 1.1bn surplus in 1Q16 (9.5% of GDP).

Revenues were driven by a 61.8% y/y increase in SOFAZ revenues and 40.8% y/y increase in oil taxes, while non-oil revenues were down 9.8% y/y.

Expenditures were driven by AZN 2.3bn in transfers from SOFAZ to CBAR to support macroeconomic stability, a 90.3% y/y increase in non-socially oriented expenditure (AZN 2.3bn), and a 14.6% y/y increase in socially oriented expenditures (AZN 1.6bn).

Non-oil consolidated budget deficit at 56.5% of non-oil GDP

With non-oil revenue down and expenditures up, non-oil consolidated budget deficit widened from AZN 1.3bn in 1Q16 (16.2% of non-oil GDP) to AZN 4.8bn in 1Q17 (56.5% of non-oil GDP). Additionally, with non-oil GDP increasing and non-oil revenue declining, share of non-oil revenue to non-oil GDP retreated from 27.9% in 1Q16 to 22.3% in 1Q17.

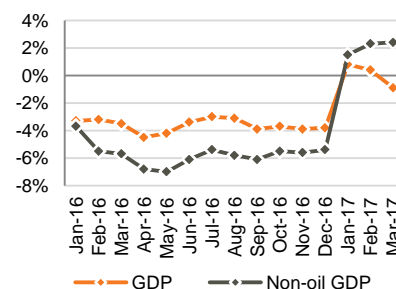
Key macro indicators

	3M16	2016	2015
GDP (% change)	-0.9%	-3.8%	1.1%
NO* GDP (% change)	2.4%	-5.4%	1.1%
GDP per capita (ppp)	...	17,439	18,030
GDP per capita (US\$)	...	3,897	5,559
Population (mn)	...	9.8	9.7
Inflation (eop)	14.4%	15.5%	7.7%
CAB (% of GDP)	...	-3.6%	-0.4%
NO* CAB (% of NOGDP)	...	-23.3%	-18.3%
Fiscal balance (% of GDP)	-7.2%	0.3%	-5.3%
NO* fiscal bal. (% of NOGDP)	-56.5%	-14.5%	-33.7%
Gross reserves (US\$ bn)	37.6	37.1	38.6

Source: Official data

* Non-oil

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)

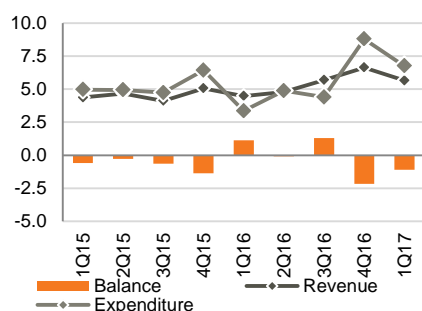
Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

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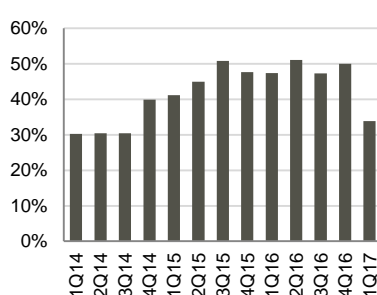
Source: Rating agencies

Consolidated budget, AZN bn



Source: Ministry of Finance of Azerbaijan Republic

Non-oil revenue, % of total revenue



Source: Ministry of Finance of Azerbaijan Republic



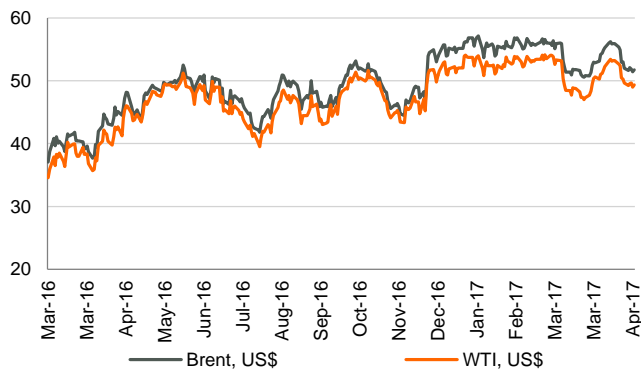
Oil prices and exchange rate

Oil price: Brent oil price was down 0.4% w/w to US\$ 51.7/bbl (up 7.5% y/y), while WTI oil price decreased 0.6% w/w to US\$ 49.3/bbl (up 7.2% y/y). In AZN terms, Brent oil price was up 0.9% w/w to AZN 87.9 (up 21.0% y/y).

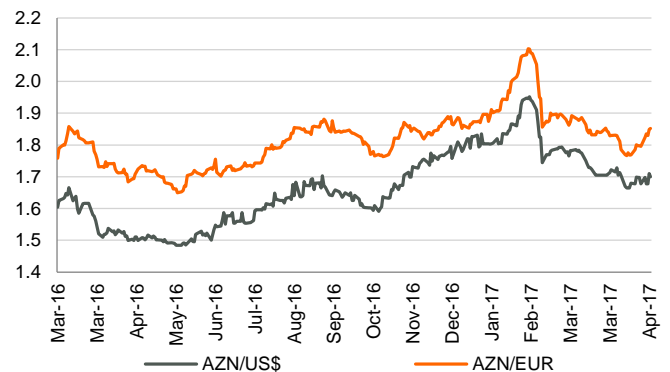
Exchange rate: On April 28, 2017, Central Bank's AZN/US\$ rate was 1.7025 (0.0% w/w) and AZN/EUR rate was 1.8495 (+1.4% w/w). At Bloomberg AZN/US\$ was trading at 1.7000 (+1.3% w/w) while AZN/EUR was trading at 1.8519 (+3.1% w/w).

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

Crude oil prices (US\$/bbl)



Exchange rates



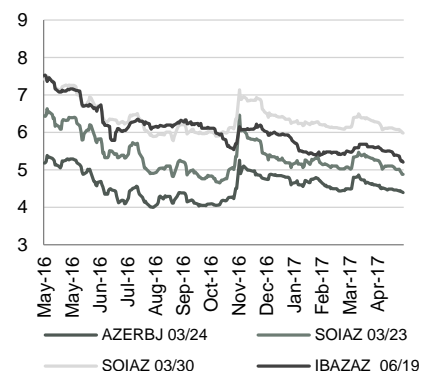


Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.0% yield, trading at 108.6 (+0.8% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 100.8 (+0.4% w/w), yielding 5.2%.

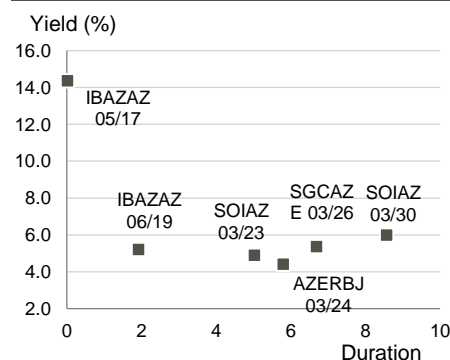
Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 102.1 (+0.4% w/w) at 4.4% yield to maturity.

Azerbaijan Eurobonds, YTM (%)



Source: Bloomberg

Azerbaijan Eurobond universe



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\$	99.3	108.6	99.8	100.8	110.6	...	102.1
Mid yield, %	4.9	6.0	14.4	5.2	5.4	...	4.4
Z-spread, bps	287.5	366.5	1367.7	361.8	318.3	...	231.8

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	102.1	4.4	231.8
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	111.0	3.8	200.4
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	119.4	0.4	-223.2
Croatia	1,250	3.875%	5/30/2022	BB/BB/Baa2	109.1	2.0	178.3
Hungary	3,000	6.375%	3/29/2021	BBB-/BBB-/Baa3	113.2	2.8	95.6
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	116.1	3.1	117.5
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	106.9	2.6	85.2
Turkey	2,000	5.625%	3/30/2021	BB+/BB/Baa1	106.1	3.9	210.4
Kazakhstan	2,500	5.125%	7/21/2025	BBB-/BBB-/Baa3	109.3	3.8	163.8

Source: Bloomberg

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