

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
January 16, 2017

Economy

SOFAZ 2017 budget approved with a deficit of AZN 6.1bn

State Oil Fund of Azerbaijan 2017 budget was approved last week. Based on the assumption of US\$ 40.0/bbl, revenues are set at AZN 8.4bn (US\$ 4.7bn at the current exchange rate), up 82.8% compared to 2016 budgeted revenues, while expenditures are set at AZN 14.5bn (US\$ 8.2bn), up 35.8% y/y. Transfers to the state budget are set at AZN 6.1bn (US\$ 3.4bn) and a new expenditure item, "Transfers to the Central Bank to support macroeconomic stability," at AZN 7.5bn (US\$ 4.2bn) is introduced in the budget, while AZN 0.9bn (US\$ 0.5bn) is assigned for other categories.

According to the 2017 budget, the fund is set to face an AZN 6.1bn (US\$ 3.4bn) deficit in 2017.

Ministry of Taxes receipts down 1.4% y/y, Customs Committee receipts up 44.0% y/y in 2016

Ministry of Taxes tax receipts were up 16.4% y/y in December 2016 to AZN 719.4mn, while Customs Committee receipts were up 17.0% y/y to AZN 235.0mn. In US\$ terms, Ministry of Taxes tax receipts were down 18.0% y/y to US\$ 411.1mn in December 2016, while Customs Committee receipts were down 17.5% y/y to US\$ 134.3mn.

In annual terms, Ministry of Taxes tax receipts were down 1.4% y/y to AZN 7.0bn, while Customs Committee receipts were up 44.0% y/y to AZN 2.3bn in 2016.

CBAR reserves decreased by US\$ 36.6mn m/m in December 2016

Central Bank reserves were down 0.9% m/m (-20.8% y/y) to US\$ 4.0bn in December 2016, the lowest level since 2007.

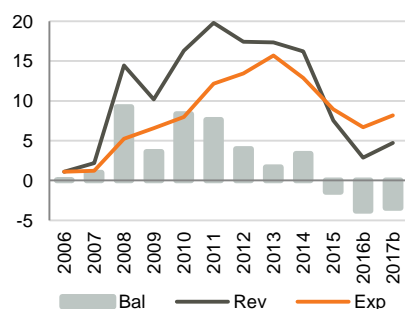
Non-performing loans up to 8.9% in November 2016

Total loans by commercial banks were up 2.9% m/m to AZN 16.3bn, driven by the depreciation of the local currency. Loans in local currency were up 1.1% m/m to AZN 8.6bn, while FX loans were up 5.0% m/m to AZN 7.7bn. In US\$ terms, however, FX loans were down 0.7% m/m to US\$ 4.4bn. Non-performing loans (NPL) were up 4.9% m/m to AZN 1.4bn, again driven by the depreciation. While in AZN terms NPLs in FX loans were up 8.2% m/m, in US\$ terms they were up 2.4% m/m. As a result, the NPL ratio increased to 8.9% (up 0.2 ppts m/m) of gross loans.

Deposit dollarization flat at 75.6% in November 2016

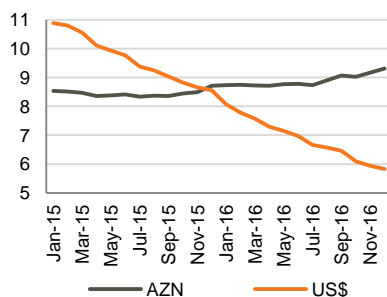
Commercial bank deposits were up 1.9% m/m to AZN 22.7bn in November 2016, helped by the depreciation of the local currency. Local currency deposits were up 1.6% m/m to AZN 5.5bn, while FX deposits were up 2.0% m/m to AZN 17.1bn. In US\$ terms, however, FX deposits were down 3.5% m/m to US\$ 9.9bn. Deposit dollarization remained flat at 75.6% in November 2016.

SOFAZ budget, US\$ bn



Source: SOFAZ
b: budgeted

Tax receipts by Ministry of Taxes and Customs Committee*



Source: SOCAR
*12 month moving sum

Key macro indicators

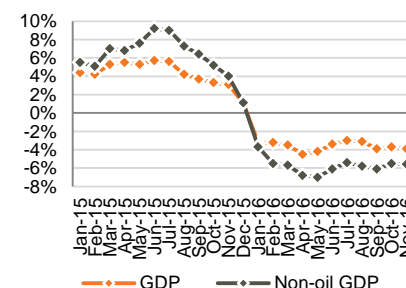
	11M16	2015	2014
GDP (% change)	-3.9%	1.1%	2.8%
NO* GDP (% change)	-5.6%	1.1%	7.0%
GDP per capita (ppp)	...	17,993	17,762
GDP per capita (US\$)	...	5,739	8,055
Population (mn)	...	9.7	9.6
Inflation (eop)	17.1%	7.7%	-0.1%
CAB (% of GDP)**	-4.0%	-0.4%	13.9%
NO* CAB (% of NOGDP)**	-22.7%	-18.4%	-16.5%
Fiscal balance (% of GDP)**	5.4%	-5.3%	2.9%
NO* fiscal bal. (% of NOGDP)**	-18.8%	-33.7%	-38.1%
Gross reserves (US\$ bn)**	40.0	38.6	50.9

Source: Official data

* Non-oil

**9M16

Real GDP growth, % (YTD)



Source: AzSTAT

International ranking of Azerbaijan

Ease of Doing Business # 65

Economic Freedom Index # 91 (moderately free)

Global Competitiveness Index # 37 (regional leader)

Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

STANDARD & POORS BB+ Negative Jul-2016	Moody's INVESTORS SERVICE Ba1 Negative Apr-2016	FitchRatings BB+ Negative Aug-2016
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Source: Rating agencies



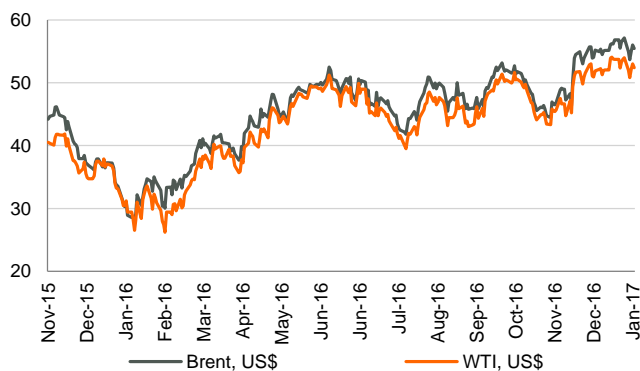
Oil prices and exchange rate

Oil price: Brent oil price was down 2.9% w/w to US\$ 55.5/bbl (up 82.9% y/y), while WTI oil price decreased 3.0% w/w to US\$ 52.4/bbl (up 71.8% y/y). In AZN terms, Brent oil price was down 1.3% w/w to AZN 96.1 (up 113.7% y/y).

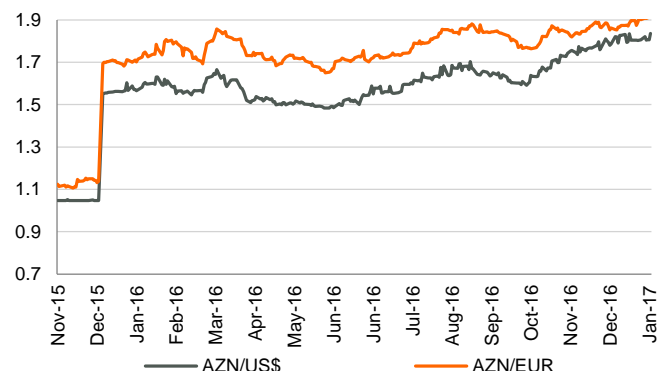
Exchange rate: On January 13, 2016, Central Bank's AZN/US\$ rate was 1.7867 (+0.7% w/w) and AZN/EUR rate was 1.8970 (+1.0% w/w). At Bloomberg AZN/US\$ was trading at 1.8354 (+1.7% w/w) while AZN/EUR was trading at 1.945 (+2.3% w/w).

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

Crude oil prices (US\$/bbl)



Exchange rates

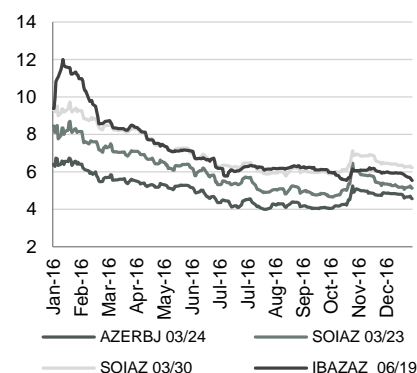


Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.2% yield, trading at 106.4 (+0.4% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 100.2 (+0.6% w/w), yielding 5.5%.

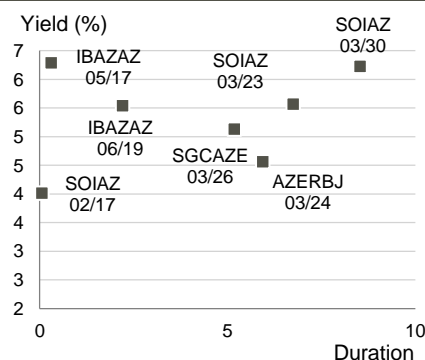
Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 101.1 (+0.5% w/w) at 4.6% yield to maturity.

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\$	100.1	98.0	106.4	99.9	100.2	109.3	101.1
Mid yield, %	4.0	5.1	6.2	6.3	5.5	5.6	4.6
Z-spread, bps	-712.8	304.3	386.4	443.7	375.0	332.3	240.6

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	101.1	4.6	240.6
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	111.0	4.0	240.6
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	120.0	0.5	-243.2
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	108.6	2.2	197.6
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	113.2	3.0	105.0
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	115.4	3.4	138.1
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	106.4	2.9	108.2
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Ba1	102.0	5.1	314.5
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	108.4	3.9	172.2

Source: Bloomberg

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