

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
November 14, 2016

Economy

Banking sector loans down slightly in September 2016

Gross loan portfolio in Azerbaijan retreated 0.3% m/m (-12.2% y/y) in September 2016, as loans provided by banks with full and some foreign capital declined 1.4% m/m (-24.3% y/y). Loans by state-owned banks were broadly flat compared to the previous month, while locally owned private banks' loan portfolio increased 0.2% m/m (+0.1% y/y) in September 2016.

At the sectoral level, the main positive contribution to the loan portfolio came from loans to trade and services (+2.1% m/m) and mortgage loans (+3.7% m/m), while contractions in non-mortgage household loans (-3.0% m/m) and in construction and real estate loans (-3.3% m/m) were the key negative contributors.

Loans in local currency were up 1.1% m/m, while FX-denominated loans were down 1.8% m/m in September 2016.

NPL rate remained broadly flat m/m in September 2016

Given limited growth in non-performing loans (+0.3% m/m), the NPL rate remained broadly flat at 9.5% in September 2016. The NPL rate stood at 8.6% for local currency loans and 10.5% for FX loans.

Deposit dollarization down to 78.6% in September 2016

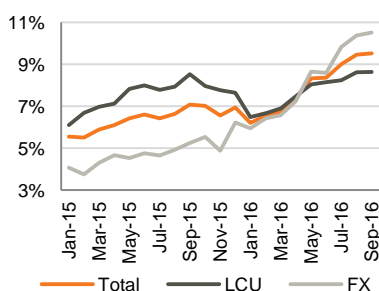
Banking system deposits were down 3.5% m/m in September 2016, driven by a 6.8% m/m contraction in deposits of non-financial corporations (NFC). AZN deposits of NFCs were up 20.0% m/m, while FX deposits were down 16.2% m/m in September 2016. With the currency structure of deposits of households and financial entities remaining broadly flat, dynamics in the deposit structure of NFCs helped the dollarization ratio of deposits in the banking system to retreat from 81.0% in August 2016 to 78.6% in September 2016.

Tax receipts slightly above the budgeted level in 10M16

According to the Ministry of Taxes, tax receipts in 10M16 were at AZN 5.7bn, 100.1% of the budgeted level. In annual terms, tax receipts were down 4.4% in 10M16, on the back of a 26.8% y/y fall in oil taxes. Non-oil taxes were up 6.1% y/y to AZN 4.3bn.

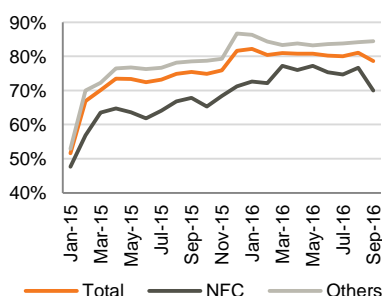
In October 2016, tax receipts were down 10.9% y/y to AZN 0.8bn, as a 7.7% y/y increase in oil taxes was not enough to compensate for a 20.1% y/y fall in non-oil taxes.

NPL ratio to gross loans, %



Source: CBAR

Deposit dollarization, %



Source: CBAR, Galt & Taggart Research

Key macro indicators

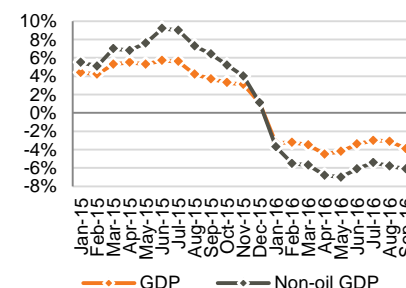
	9M16	2015	2014
GDP (% change)	-3.9%	1.1%	2.8%
NO** GDP (% change)	-6.1%	1.1%	7.0%
GDP per capita (ppp)	...	17,993	17,762
GDP per capita (US\$)	...	5,739	8,055
Population (mn)	...	9.7	9.6
Inflation (eop)	14.2%	7.7%	-0.1%
CAB (% of GDP)*	-4.6%	-0.4%	13.9%
NO* CAB (% of NOGDP)**	-24.9%	-18.4%	-16.5%
Fiscal 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

**1H16

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



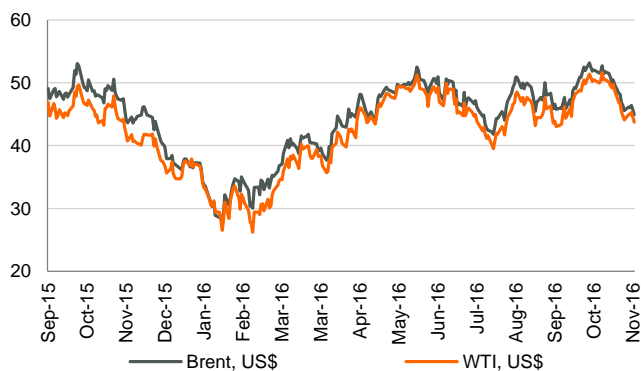
Oil prices and exchange rate

Oil price: Brent oil price was down 1.4% w/w to US\$ 44.9/bbl (down 1.9% y/y), while WTI oil price decreased 0.8% w/w to US\$ 43.7/bbl (up 1.9% y/y). In AZN terms, Brent oil price was down 0.1 w/w to AZN 77.7 (up 62.1% y/y).

Exchange rate: On November 11, 2016, Central Bank's AZN/US\$ rate was 1.6869 (+2.3% w/w) and AZN/EUR rate was 1.8397 (+0.4% w/w). At Bloomberg AZN/US\$ was trading at 1.7295 (+1.4% w/w) while AZN/EUR was trading at 1.8573 (-0.8% w/w).

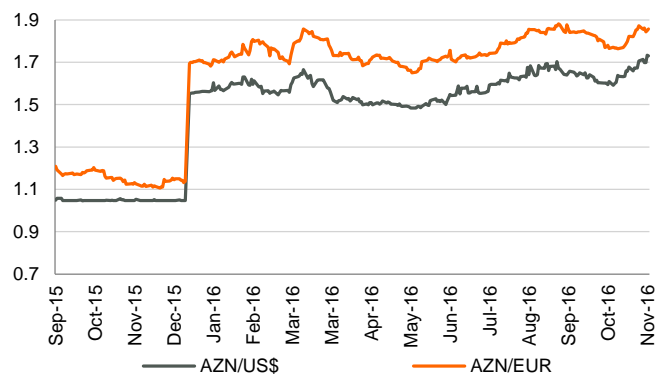
Monetary policy rate: Monetary policy rate was unchanged at 15.0%.

Crude oil prices (US\$/bbl)



Source: Bloomberg

Exchange rates



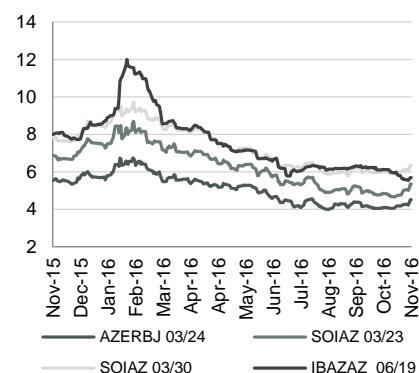
Source: Bloomberg

Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.4% yield, trading at 105.2 (-2.0% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 99.8 (-0.2% w/w), yielding 5.7%.

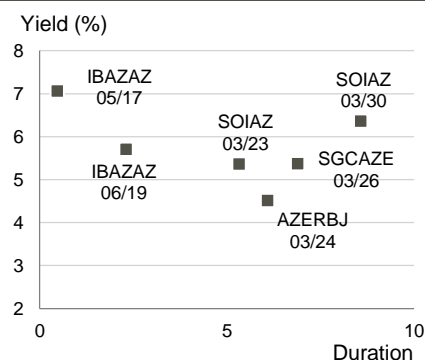
Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 101.5 (-1.5% w/w) at 4.5% yield to maturity.

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+/-/Ba1
Mid price, US\$	100.9	96.8	105.2	99.6	99.8	110.9	101.5
Mid yield, %	1.5	5.4	6.4	7.1	5.7	5.4	4.5
Z-spread, bps	-67.2	369.0	463.5	471.7	433.5	383.6	304.7

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	101.5	4.5	304.7
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	111.6	4.0	291.8
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	120.6	0.5	-236.8
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	105.5	2.8	255.2
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	112.8	3.2	109.0
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	114.4	3.7	200.9
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	105.8	3.2	171.1
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Ba1	102.9	4.9	329.3
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	106.6	4.2	225.5

Source: Bloomberg

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