

# Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan  
June 20, 2016

## Economy

### Azerbaijan economy contracted 4.2% y/y in 5M16

In 5M16, real GDP declined 4.2% y/y, with non-oil GDP down 7.0% y/y and oil GDP up 1.0% y/y. The construction sector, which contracted 37.0% y/y, continued to weigh on overall growth, followed by transportation and storage (-9.5% y/y). Excluding the construction sector, the fall in non-oil GDP moderated from 1.4% y/y in 4M16 to 1.0% y/y in 5M16. Positive contribution came from trade (+1.9% y/y), agriculture (+5.8% y/y), and manufacturing (2.3% y/y).

In nominal terms, GDP increased 5.6% y/y to AZN 21.5bn in 5M16, while in US\$ terms, output decreased 35.7% y/y to US\$ 13.9bn.

### NPLs at 7.4% in April 2016

An increase in non-performing loans in AZN terms (+4.1% m/m) and a fall in the total loan portfolio (-4.7% m/m) resulted in NPLs going up from 6.7% in March 2016 to 7.4% in April 2016, the highest level since 2004. The contraction in the loan portfolio in April was driven mainly by a 9.2% m/m contraction in the state banks' loan portfolio (-16.8% y/y). Foreign currency loans decreased 6.4% m/m in April 2016, while the loan portfolio in local currency was down 3.1% m/m. At sectoral level, the fall in the loan portfolio was driven by reduced lending to households (-5.2% m/m), construction and real estate (-6.8% m/m), industry (-11.7% m/m), and trade and services (-4.4% m/m).

### Deposit dollarization inched down to 80.8% in April 2016

As deposits decreased in both local and foreign currencies, total deposits retreated to AZN 22.6bn (-2.4% m/m) in April 2016. However, as the decrease in FX deposits was higher, the deposit dollarization ratio retreated slightly to 80.8% in March (-0.2ppts m/m).

### Oil and gas extraction up in May 2016

According to SOCAR, oil and natural gas extraction in Azerbaijan was up 4.1% y/y and 2.7% y/y, respectively, in May 2016 (-0.6% y/y and +0.9% y/y, respectively, in 5M16). While SOCAR's output of oil and gas declined, an increase in the output of other producers was more than enough to bring overall production to positive territory.

### Azerbaijan's external public debt up 8.0% q/q in 1Q16

Azerbaijan's external public debt increased 8.0% q/q to US\$ 7.4bn in 1Q16. A bulk (US\$ 6.1bn) of this debt is owed to international financial institutions and only 17.7% (US\$ 1.3bn) is issued in the form of Eurobonds on international capital markets.

### Key macro indicators

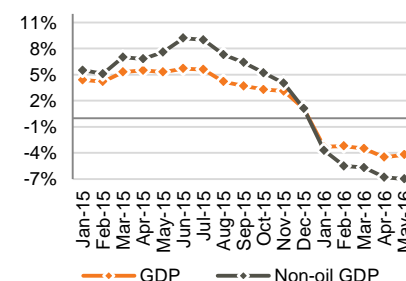
	4M16	2015	2014
GDP (% change)	-4.2%	1.1%	2.8%
NO* GDP (% change)	-7.0%	1.1%	7.0%
GDP per capita (ppp)	...	17,993	17,762
GDP per capita (US\$)	...	5,739	8,055
Population (mn)	...	9.7	9.6
Inflation (eop)	10.2%	7.7%	-0.1%
CAB (% of GDP)	...	-0.4%	13.9%
NO* CAB (% of NOGDP)	...	-18.4%	-16.5%
Fiscal balance (% of GDP)**	8.9%	-5.3%	2.9%
NO* fiscal bal. (% of NOGDP)***	-14.9%	-33.7%	-38.1%
Gross reserves (US\$ bn)**	38.3	38.6	50.9

Source: Official data

\* Non-oil

\*\*1Q16

### 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)

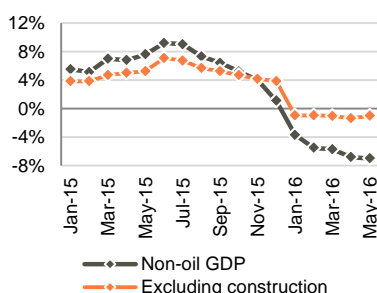
Source: World Bank, Heritage Foundation and World Economic Forum

### Azerbaijan sovereign credit ratings

<b>STANDARD &amp; POOR'S</b>  <b>BB+</b> Stable Jan-2016	<b>Moody's</b> INVESTORS SERVICE  <b>Ba1</b> Negative Apr-2016	<b>FitchRatings</b>  <b>BB+</b> Negative Feb-2016
--	---	---

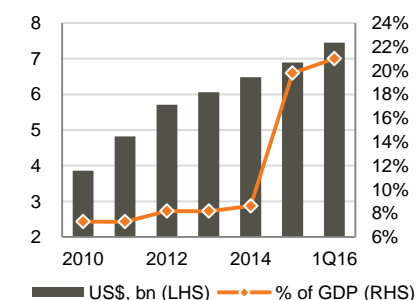
Source: Rating agencies

### Non-oil GDP, YTD y/y % change



Source: AzSTAT

### External public debt



Source: Ministry of Finance

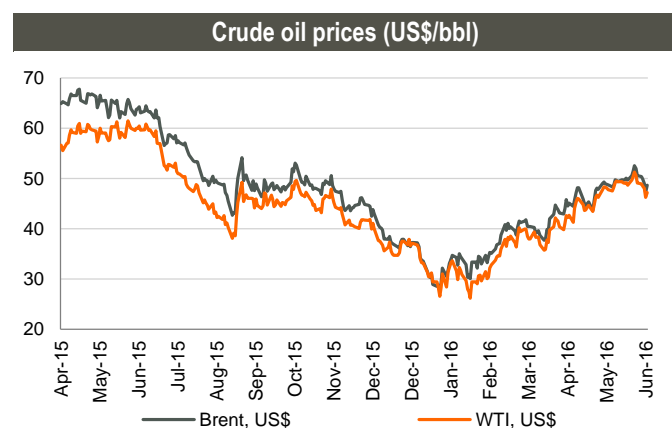
## Oil prices and exchange rate

**Oil price:** Brent oil price was down 3.7% w/w to US\$ 48.7/bbl (down 23.8% y/y), while WTI oil price decreased 3.8% w/w to US\$ 47.2/bbl (down 21.2% y/y). In AZN terms, Brent oil price was down 3.7% w/w to AZN 74.0 (up 10.6% y/y).

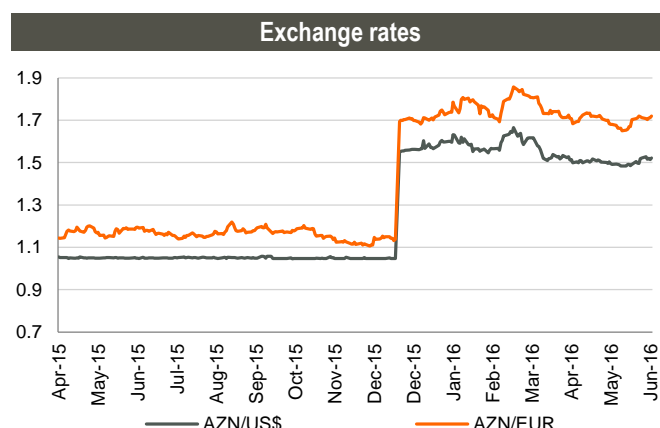
**Exchange rate:** On June 17, 2016, Central Bank set AZN/US\$ rate at 1.518 (+0.4% w/w) and AZN/EUR at 1.7074 (+0.0% w/w). At Bloomberg AZN/US\$ was trading at 1.5220 (+0.1% w/w) while AZN/EUR was trading at 1.7196 (+0.5% w/w).

**Monetary policy rate:** Monetary policy rate remained unchanged at 7.0%.

**FX auctions:** In two FX auctions organized by the Central Bank over the last week, State Oil Fund sold US\$ 100.0mn to commercial banks.



Source: Bloomberg



Source: Bloomberg

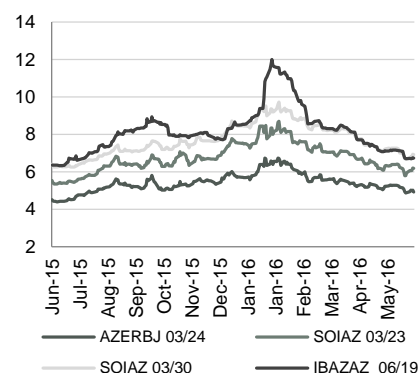


## Fixed income

**Corporate Eurobonds:** State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.9% yield, trading at 100.3 (-1.8% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 97.1 (-0.1% w/w), yielding 6.7%.

**Azerbaijan Sovereign Eurobonds** (AZERBJ 03/24) closed at 98.8 (-0.2% w/w) at 4.9% yield to maturity.

**Azerbaijan Eurobonds, YTM (%)**

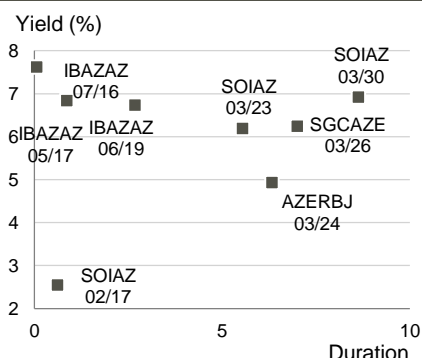


Source: Bloomberg

	Eurobonds							
	SOIAZ 02/17	SOIAZ 03/23	SOIAZ 03/30	IBAZAZ 05/17	IBAZAZ 07/16	IBAZAZ 06/19	SGCAZE 03/26	AZERBJ 03/24
Amount, US\$ mn	97.1	1000	750	100	198	500	1,000	1,250
Issue date	Feb-2012	Mar-2013	Mar-2015	May-2007	Sep-2013	Jun-2014	Mar-16	Mar-14
Maturity date	Feb-2017	Mar-2023	Mar-2030	May-2017	Jul-2016	Jun-2019	Mar-26	Mar-24
Coupon, %	5.450%	4.750%	6.950%	6.170%	7.750%	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-/Ba3	BB+/-Ba1	BB+/-Ba1
Mid price, US\$	101.8	92.2	100.3	99.4	100.0	97.1	104.6	98.8
Mid yield, %	2.5	6.2	6.9	6.8	7.6	6.7	6.2	4.9
Z-spread, bps	192.4	489.7	530.3	577.5	NA	586.9	479.0	362.3

Source: Bloomberg

**Azerbaijan Eurobond universe**



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	98.8	4.9	362.3
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	110.5	4.4	322.8
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	119.1	1.1	-229.5
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	102.3	3.4	336.3
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	114.1	3.2	216.7
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	117.9	3.2	206.3
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	106.3	3.3	217.0
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	108.1	3.8	262.9
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	106.9	4.2	276.4

Source: Bloomberg

# Disclaimer

This document is strictly confidential and has been prepared by JSC Galt & Taggart ("Galt & Taggart"), a member of JSC Bank of Georgia group ("Group") 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.

Galt & Taggart 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 Galt & Taggart 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 Galt & Taggart or any other member of the Group or their respective 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 Galt & Taggart any other member of the Group or any of their respective 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, Galt & Taggart, any other member of the Group and their respective 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 Galt & Taggart 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 Galt & Taggart or any other member of the Group, or any of their respective 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 Galt & Taggart 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 Galt & Taggart, any other member of the Group, nor their respective 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.

Galt & Taggart does, and seeks to do, and any other member of the Group may or seek 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 Galt & Taggart. 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.

## **Galt & Taggart**

**Address:** 79 D. Agmashenebeli Avenue, Tbilisi 0102, Georgia

**Tel:** + (995) 32 2401 111

**Email:** gt@gt.ge