

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
May 15, 2017

Economy

IBAR to restructure its debt

On May 11, 2017, International Bank of Azerbaijan (IBAR), majority government-owned commercial bank, announced its intention to restructure its foreign obligations totaling US\$ 3.3bn, including Eurobond in the amount of US\$ 0.5bn maturing in June 2019. Restructuring will include an exchange of IBAR's senior and junior foreign currency obligations for direct sovereign obligations of the Republic of Azerbaijan.

Non-performing loans up to 10.2% in March 2017

Total loans by commercial banks were down 2.2% m/m (-21.1% y/y) to AZN 15.5bn, on the back of 2.7% m/m contraction of local currency loans, while FX loans were down 1.6% m/m. In US\$ terms, FX denominated loans were down 0.2% m/m to US\$ 4.3bn. Non-performing loans (NPL) were up 2.2% m/m to AZN 1.6bn, and NPL ratio reached 10.2% in March 2017, with the local currency NPL ratio up to 8.9% and FX NPL ratio up to 11.8%.

State owned banks' loan portfolio was up 22.6% m/m to AZN 5.3bn, while private commercial banks' loan portfolio contracted 11.9% m/m.

Deposit dollarization down to 75.8% in March 2017

Commercial bank deposits were down 2.1% m/m to AZN 21.3bn in March 2017, as appreciation of the local currency led FX deposits in AZN terms down 3.2% m/m, while local currency deposits were up 1.4% m/m to AZN 5.2bn. In US\$ terms, FX deposits were down 1.9% m/m to US\$ 9.4bn. With FX deposits decreasing and local currency deposits increasing, deposit dollarization retreated to 75.8% in March 2017. Excluding central government and non-residents' deposits, dollarization ratio was down to 64.9% in April 2017.

SOCAR's tax payments increased for the fifth consecutive month in April 2017

In April 2017 SOCAR paid AZN 133.7mn (+11.5% y/y) to the state budget and AZN 13.2mn (+0.8% y/y) to the state social protection fund (SSPF). In 4M17, its total tax payments and contributions to SSPF reached AZN 579.8mn (+18.3% y/y).

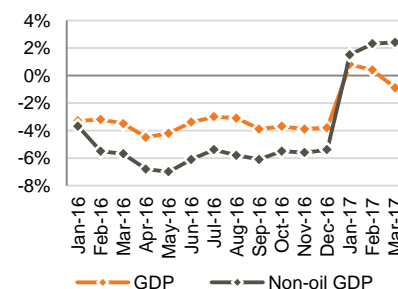
Key macro indicators

	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)

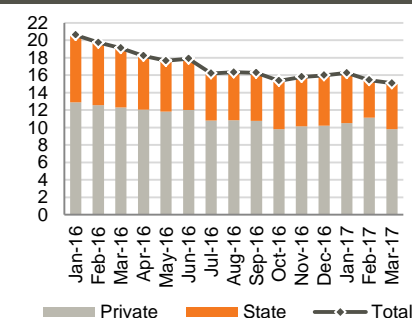
Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings



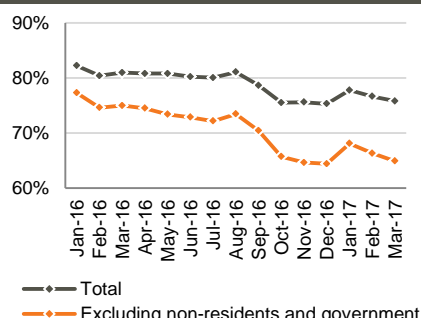
Source: Rating agencies

Gross loans by state versus private banks



Source: CBAR

Deposit dollarization



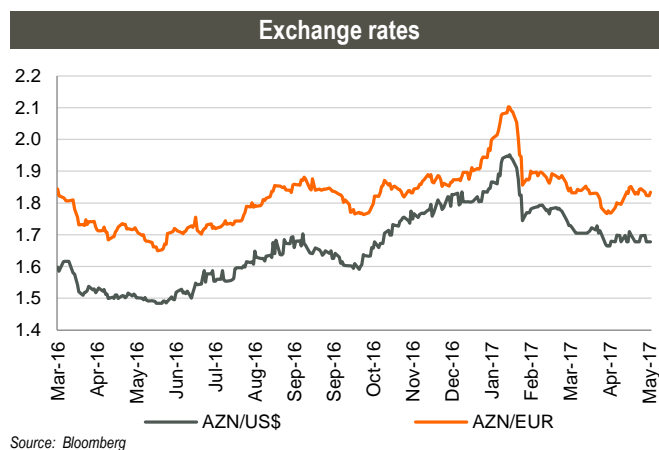
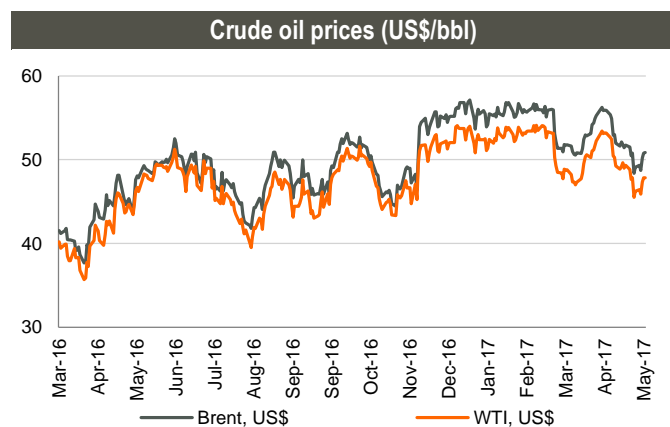
Source: CBAR

Oil prices and exchange rate

Oil price: Brent oil price was up 3.5% w/w to US\$ 50.8/bbl (up 5.7% y/y), while WTI oil price increased 3.5% w/w to US\$ 47.8/bbl (up 2.4% y/y). In AZN terms, Brent oil price was up 2.3% w/w to AZN 85.3 (up 18.1% y/y).

Exchange rate: On May 12, 2017, Central Bank's AZN/US\$ rate was 1.7025 (-0.0% w/w) and AZN/EUR rate was 1.8509 (-1.0% w/w). At Bloomberg AZN/US\$ was trading at 1.6775 (-1.2% w/w) while AZN/EUR was trading at 1.8336 (-0.6% w/w).

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

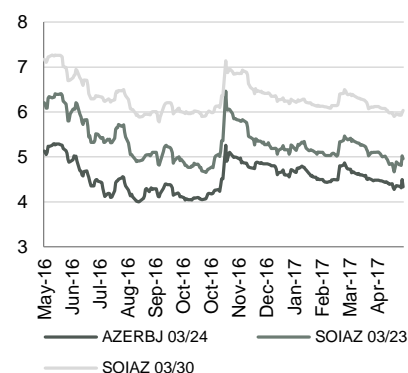


Fixed income

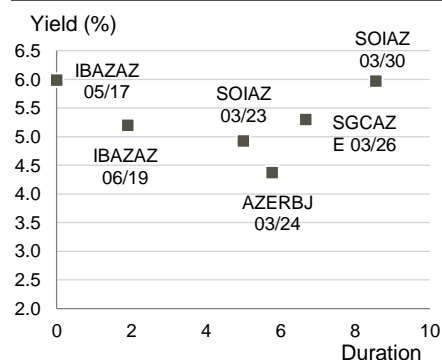
Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.0% yield, trading at 108.1 (-0.7% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 90.4 (-10.3% w/w), yielding 10.9%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 102.4 (+0.2% w/w) at 4.3% yield to maturity.

Azerbaijan Eurobonds, YTM (%)



Azerbaijan Eurobond universe



Eurobonds					
	SOIAZ 03/23	SOIAZ 03/30	IBAZAZ 06/19	SGCAZE 03/26	AZERBJ 03/24
Amount, US\$ mn	1000	750	500	2,000	1,250
Issue date	Mar-13	Mar-15	Jun-14	Mar-16	Mar-14
Maturity date	Mar-23	Mar-30	Jun-19	Mar-26	Mar-24
Coupon, %	4.750%	6.950%	5.625%	6.875%	4.750%
Fitch/S&P/ Moody's	BB+/BB /Ba1	BB+/BB /Ba1	BB-/Ba3	BB+/-/Ba1	BB+/BB+/Ba1
Mid price, US\$	99.0	108.1	90.4	110.8	102.4
Mid yield, %	5.0	6.0	10.9	5.3	4.3
Z-spread, bps	298.2	372.7	939.0	317.1	228.3

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	102.4	4.3	228.3
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	111.4	3.7	192.6
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	119.4	0.3	-228.7
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba2	109.4	1.9	170.9
Hungary	3,000	6.375%	3/29/2021	BBB-/BBB-/Baa3	113.1	2.8	99.7
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	116.1	3.1	118.4
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	106.9	2.6	89.0
Turkey	2,000	5.625%	3/30/2021	BB+/BB/Ba1	105.9	4.0	218.5
Kazakhstan	2,500	5.125%	7/21/2025	BBB-/BBB-/Baa3	109.1	3.8	168.1

Source: Bloomberg

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