

Azerbaijan Weekly Market Watch

 Weekly Market Watch | Azerbaijan
 July 18, 2016

Economy

Azerbaijan economy contracted 3.4% y/y in 1H16

In 1H16, real GDP declined 3.4% y/y, less than the 4.2% y/y contraction recorded in 5M16. Non-oil GDP was down 6.1% y/y, compared to a 7.0% y/y decline in 5M16, while oil GDP was up 2.1% y/y. Among major sectors, only the agricultural and tourism sectors posted slightly worse performances than in 5M16. The construction sector was down 33.6% y/y in 1H16 and was the main drag on growth. Excluding the construction sector, non-oil GDP contracted only 0.5% y/y, indicating relative improvement compared to the 1.4% y/y contraction in 4M16.

Inflation rate at 10.9% y/y in June 2016

Annual CPI inflation rate inched up to 10.9% in June 2016 from 10.2% in the previous month, according to AzSTAT. In June, food prices were up 12.2% y/y (+1.6ppts m/m), non-food prices were up 16.0% y/y (+0.3ppts m/m), and service sector prices were up 4.8% y/y (+0.0ppts m/m).

Ministry of Taxes and Customs Committee receipts up in June 2016

According to the Ministry of Taxes of Azerbaijan, tax revenues were AZN 3.2bn in 1H16, 2.0% more than budgeted, albeit down 4.7% y/y. In monthly terms, however, tax receipts were up 1.8% y/y to AZN 506.5mn. Taxes paid by SOCAR, reported separately, were down 9.2% y/y in 1H16 and down 20.0% y/y in June 2016.

Customs Committee receipts were up 30.1% y/y in 1H16 to AZN 1.0bn. On a monthly basis, customs receipts were up 3.2% y/y in June 2016, helped by a 53.1% y/y increase in customs duties but pressured by an 18.4% contraction in VAT.

NPLs at 8.3% in May 2016

An increase in non-performing loans in AZN terms (+9.6% m/m) and a fall in the total loan portfolio (-3.0% m/m) resulted in NPLs going up from 7.4% in April 2016 to 8.3% in May 2016, the highest level since 2004. The increase in NPLs was mainly driven by a 12.3% increase in long term non-performing loans. The contraction in the loan portfolio in May was driven mainly by a 5.7% m/m contraction in foreign currency loans, while the loan portfolio in local currency was down by just 0.5% m/m.

Commercial banks' foreign assets down 34.8% m/m in May 2016 to US\$ 3.7bn

Commercial banks' gross foreign assets peaked in Mar 2016, reaching US\$ 5.9bn. However, assets were down 4.1% m/m in April and dropped a massive 34.8% m/m in May 2016, retreating to US\$ 3.7bn.

Key macro indicators

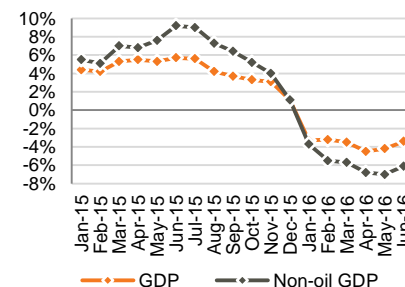
	6M16	2015	2014
GDP (% change)	-3.4%	1.1%	2.8%
NO* GDP (% change)	-6.1%	1.1%	7.0%
GDP per capita (ppp)	...	17,993	17,762
GDP per capita (US\$)	...	5,739	8,055
Population (mn)	...	9.7	9.6
Inflation (eop)	10.9%	7.7%	-0.1%
CAB (% of GDP)**	-5.4%	-0.4%	13.9%
NO* CAB (% of NOGDP)**	-18.4%	-18.4%	-16.5%
Fiscal 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)

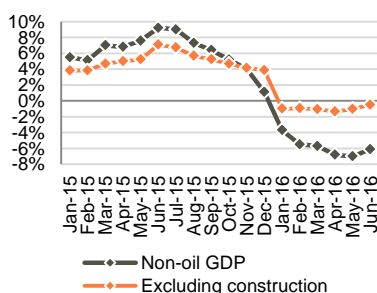
Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

STANDARD & POOR'S BB+ Stable Jan-2016	Moody's INVESTORS SERVICE Ba1 Negative Apr-2016	FitchRatings BB+ Negative Feb-2016
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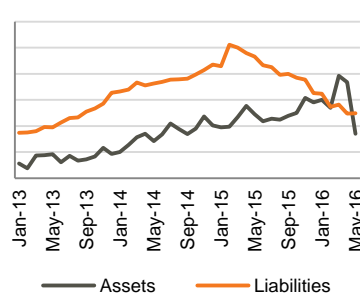
Source: Rating agencies

Non-oil GDP, YTD % change



Source: AzSTAT

Commercial banks' foreign assets, US\$ bn



Source: CBAR



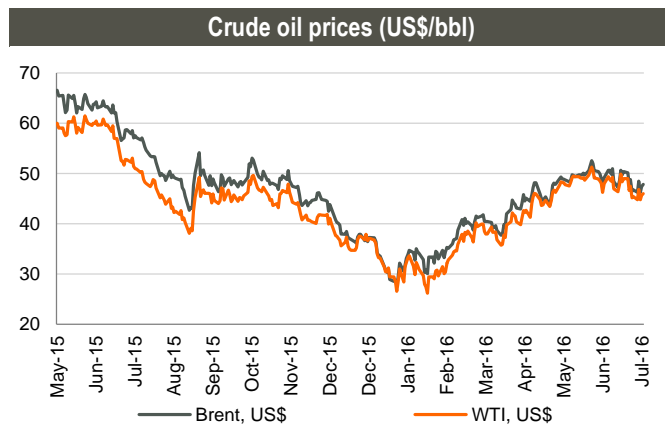
Oil prices and exchange rate

Oil price: Brent oil price was up 2.2% w/w to US\$ 47.8/bbl (down 16.2% y/y), while WTI oil price increased 1.3% w/w to US\$ 46.0/bbl (down 10.5% y/y). In AZN terms, Brent oil price was up 1.8% w/w to AZN 74.3 (up 23.9% y/y).

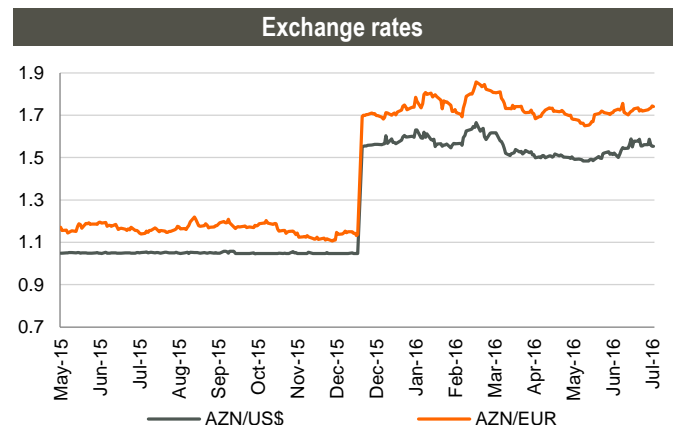
Exchange rate: On July 15, 2016, Central Bank set AZN/US\$ rate at 1.5581 (+0.8% w/w) and AZN/EUR at 1.7335 (+1.2% w/w). At Bloomberg AZN/US\$ was trading at 1.5535 (-0.4% w/w) while AZN/EUR was trading at 1.7407 (+1.1% w/w).

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 and the Central Bank sold US\$ 300.0mn to commercial banks.



Source: Bloomberg



Source: Bloomberg

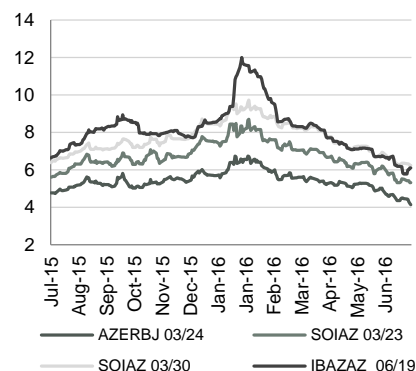


Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.2% yield, trading at 106.4 (+1.0% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 98.8 (-0.8% w/w), yielding 6.1%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 104.0 (+2.1% w/w) at 4.1% yield to maturity.

Azerbaijan Eurobonds, YTM (%)

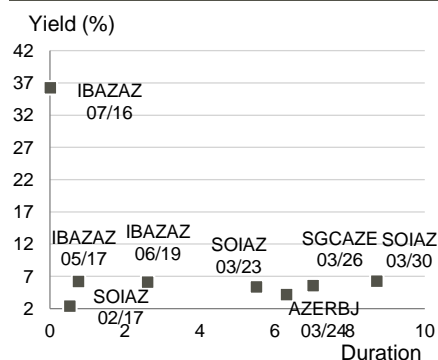


Source: Bloomberg

	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+/BB+/Ba1
Mid price, US\$	101.7	96.8	106.4	100.0	99.5	98.8	110.0	104.0
Mid yield, %	2.4	5.3	6.2	6.2	36.2	6.1	5.5	4.1
Z-spread, bps	149.8	416.9	472.2	575.7	n/a	523.7	411.9	280.9

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	104.0	4.1	280.9
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	111.5	4.2	299.9
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	119.8	0.9	-241.5
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	104.0	3.1	314.2
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	114.7	3.0	180.3
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	119.7	2.9	170.7
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	108.3	2.7	161.1
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	109.7	3.4	223.5
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	110.5	3.7	237.0

Source: Bloomberg

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