

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
January 23, 2017

Economy

GDP down 3.8% y/y in 2016

Azerbaijan's economy contracted 3.8% y/y in 2016, driven mainly by a 27.6% y/y decline in construction activity. Positive contribution to growth came from agriculture (+2.6% y/y), information and communication (+4.5% y/y), trade (+1.5% y/y), industry (+0.4% y/y), and tourism (+0.1% y/y).

GDP per capita down 29.9% y/y to US\$ 3,897

Nominal GDP in Azerbaijan in AZN terms was up 10.4% y/y in 2016. Nominal growth in GDP was driven by a 23.4% y/y increase in oil GDP, while non-oil GDP was up 4.6% y/y.

In nominal US\$ terms, however, GDP in 2016 was down 28.9% y/y to US\$ 37.6bn. GDP per capita was down 29.9% y/y to US\$ 3,897.

Inflation rate at 15.5% y/y in December 2016

Annual CPI inflation rate retreated from 17.1% in the previous month to 15.5% in December 2016. In December, food prices were up 21.0% y/y (-0.5ppts m/m), non-food prices were up 16.3% y/y (-5.6ppts m/m), and service sector prices were up 8.0% y/y (+0.5ppts m/m).

Overall, annual average inflation was 12.4% y/y in 2016, up from 4.0% y/y in 2015. Food prices were up 14.8% y/y, non-food prices were up 16.8% y/y, while prices in services were up 5.6% y/y.

Non-mineral fuel exports down 8.6% y/y in December 2016

Azerbaijan's exports declined 8.8% y/y in November 2016 to US\$ 1.0bn, while imports were up 0.5% y/y to US\$ 0.8bn, resulting in a US\$ 0.3bn trade surplus (-26.8% y/y). According to preliminary December 2016 data from the Customs Committee, non-mineral fuel (N-MF) exports were down 8.6% y/y to US\$ 105.3mn, while total imports were down 19.0% y/y to US\$ 771.6mn.

According to the preliminary figures, N-MF exports were down 24.2% y/y in 2016 to US\$ 1.2bn, while total imports were down 7.4% y/y to US\$ 8.5bn.

Key macro indicators

	11M16	2015	2014
GDP (% change)	-3.8%	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\$)	3,897	5,559	7,991
Population (mn)	...	9.7	9.6
Inflation (eop)	15.5%	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

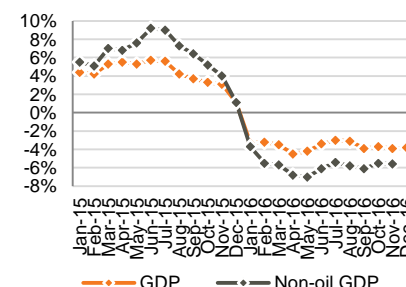
Source: Official data

* Non-oil

** 11M16

*** 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)

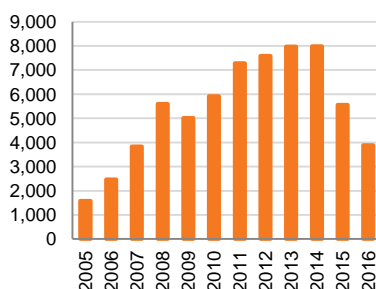
Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

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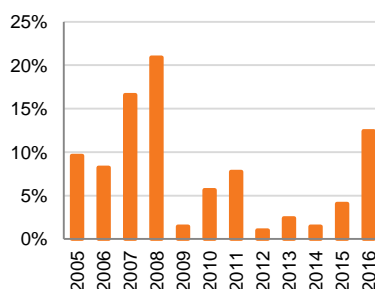
Source: Rating agencies

GDP per capita, US\$



Source: AzSTAT

Annual average inflation rate, %



Source: AzSTAT



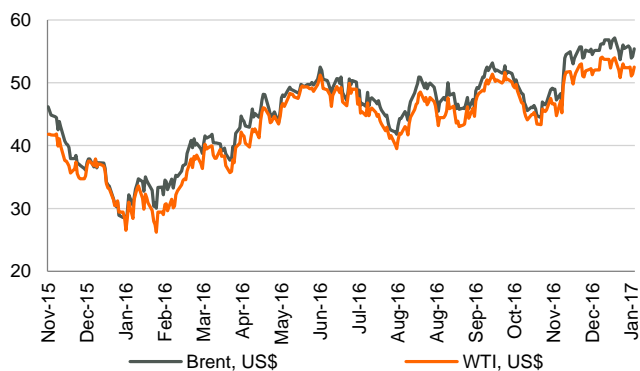
Oil prices and exchange rate

Oil price: Brent oil price was down 0.1% w/w to US\$ 55.4/bbl (up 98.6% y/y), while WTI oil price increased 0.2% w/w to US\$ 52.5/bbl (up 97.6% y/y). In AZN terms, Brent oil price was up 1.5% w/w to AZN 97.9 (up 130.9% y/y).

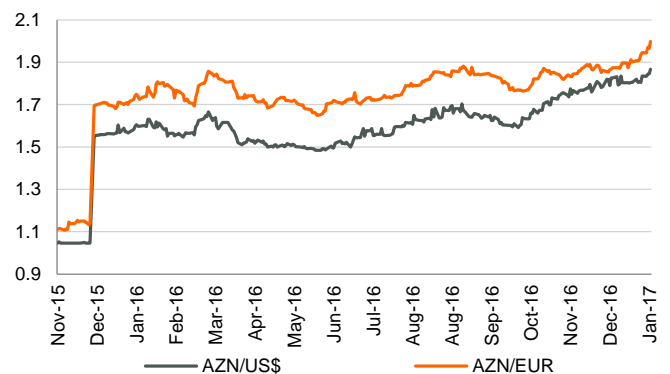
Exchange rate: On January 19, 2016, Central Bank's AZN/US\$ rate was 1.8311 (+2.5% w/w) and AZN/EUR rate was 1.9483 (+2.7% w/w). At Bloomberg AZN/US\$ was trading at 1.8663 (+1.7% w/w) while AZN/EUR was trading at 1.9978 (+2.7% w/w).

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

Crude oil prices (US\$/bbl)



Exchange rates

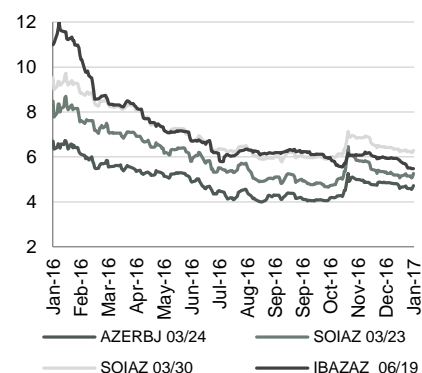


Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.3% yield, trading at 105.9 (-0.4% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 100.3 (+0.1% w/w), yielding 5.5%.

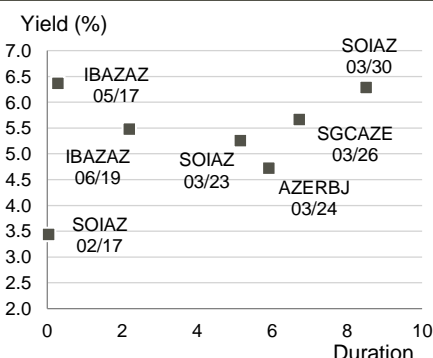
Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 100.2 (-0.7% w/w) at 4.7% yield to maturity.

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-12	Mar-13	Mar-15	May-07	Jun-14	Mar-16	Mar-14
Maturity date	Feb-17	Mar-23	Mar-30	May-17	Jun-19	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\$	100.1	97.4	105.9	99.9	100.3	108.6	100.2
Mid yield, %	3.4	5.3	6.3	6.4	5.5	5.7	4.7
Z-spread, bps	-1114.3	305.2	378.3	425.1	363.4	330.0	246

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	100.2	4.7	246.0
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	110.9	4.0	202.4
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	119.9	0.5	-233.3
Croatia	1,250	3.875%	5/30/2022	BB/BB/Baa2	108.4	2.2	196.2
Hungary	3,000	6.375%	3/29/2021	BBB-/BBB-/Baa3	112.4	3.2	115.3
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	114.7	3.5	144.4
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	106.4	2.9	101.5
Turkey	2,000	5.625%	3/30/2021	BBB-/BB/Ba1	102.3	5.0	300.4
Kazakhstan	2,500	5.125%	7/21/2025	BBB-/BBB-/Baa3	107.6	4.1	173.7

Source: Bloomberg

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