

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
October 3, 2016

Economy

Consolidated budget deficit planned at 2.0% of GDP in 2017

Ministry of Finance of Azerbaijan Republic has published a draft budget for 2017. According to the document, consolidated budget revenues will be AZN 19.7bn (32.1% of GDP), while expenditures are set at AZN 21.0bn (34.1% of GDP), resulting in a consolidated budget deficit of 2.0% of GDP. The document is based on US\$ 40.0/bbl oil price, compared to US\$ 25.0/bbl set for the 2016 budget, and 1.0% real GDP growth rate.

GDP to expand an average of 1.9% annually from 2017 to 2020

The government expects GDP growth to be in the range of 1.0%-2.8% from 2017 to 2020, driven by the non-oil sectors. Non-oil GDP is forecast to increase 2.5% y/y in 2017 and 2.6% y/y in 2018. Nominal GDP is forecast to be AZN 61.4bn in 2017, 13.0% higher than the actual level in 2015. In US\$ terms, however, at AZN/US\$ at 1.6 in 2017, nominal GDP would amount to US\$ 38.4bn, 27.5% lower than the actual level in 2015.

Azerbaijan's competitiveness ranking improved

Azerbaijan has improved its ranking in the World Economic Forum's Global Competitiveness report from 40th to 37th position and remains the regional leader.

Key macro indicators

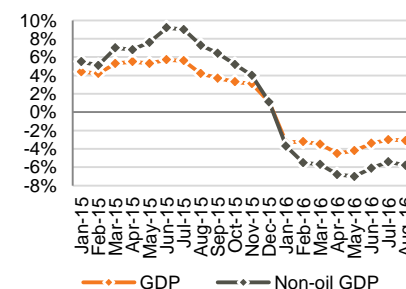
	7M16	2015	2014
GDP (% change)	-3.1%	1.1%	2.8%
NO* GDP (% change)	-5.8%	1.1%	7.0%
GDP per capita (ppp)	...	17,993	17,762
GDP per capita (US\$)	...	5,739	8,055
Population (mn)	...	9.7	9.6
Inflation (eop)	12.0%	7.7%	-0.1%
CAB (% of GDP)**	-4.6%	-0.4%	13.9%
NO* CAB (% of NOGDP)**	-24.9%	-18.4%	-16.5%
Fiscal balance (% of GDP)**	3.8%	-5.3%	2.9%
NO* fiscal bal. (% of NOGDP)**	-20.8%	-33.7%	-38.1%
Gross reserves (US\$ bn)**	39.4	38.6	50.9

Source: Official data

* Non-oil

**1H16

Real GDP growth, % (YTD)



Source: AzSTAT

International ranking of Azerbaijan

Ease of Doing Business # 63

Economic Freedom Index # 91 (moderately free)

Global Competitiveness Index # 37 (regional leader)

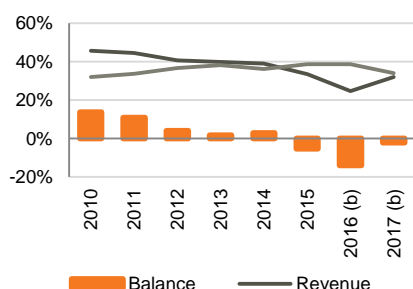
Source: World Bank, Heritage Foundation and World Economic Forum

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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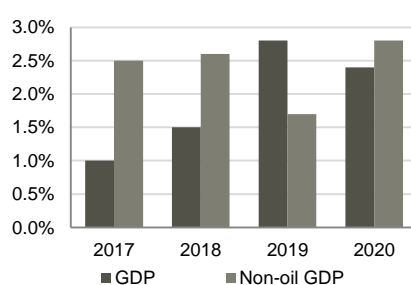
Source: Rating agencies

Consolidated budget, % of GDP



Source: AzSTAT, Ministry of Finance

GDP growth forecast



Source: Ministry of Finance

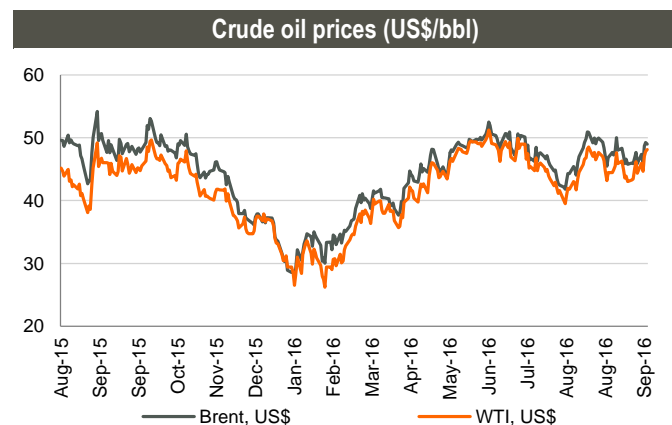
Oil prices and exchange rate

Oil price: Brent oil price was up 6.7% w/w to US\$ 49.0/bbl (up 1.3% y/y), while WTI oil price increased 8.5% w/w to US\$ 48.1/bbl (up 6.7% y/y). In AZN terms, Brent oil price was up 6.2% w/w to AZN 80.4 (up 58.9% y/y).

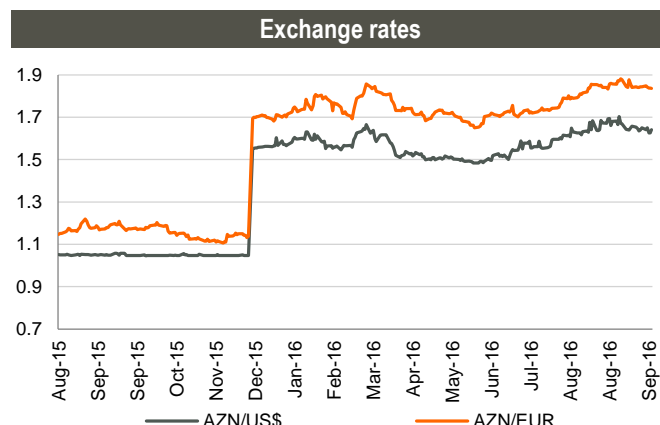
Exchange rate: On September 23, 2016, Central Bank set AZN/US\$ rate at 1.6211 (-0.5% w/w) and AZN/EUR at 1.8187 (-0.3% w/w). At Bloomberg AZN/US\$ was trading at 1.6415 (-0.5% w/w) while AZN/EUR was trading at 1.8355 (-0.4% w/w).

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

FX auctions: In FX auction organized by the Central Bank over the last week, State Oil Fund sold US\$ 119.1.0mn to commercial banks.



Source: Bloomberg



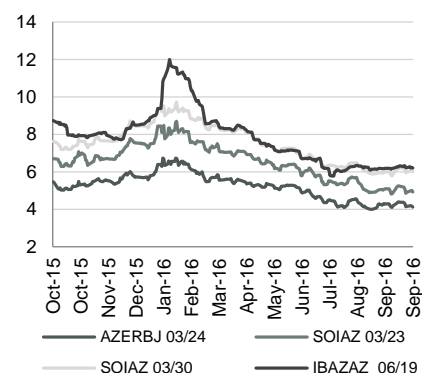
Source: Bloomberg

Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.0% yield, trading at 108.5 (-0.3% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 98.5 (+0.0% w/w), yielding 6.2%.

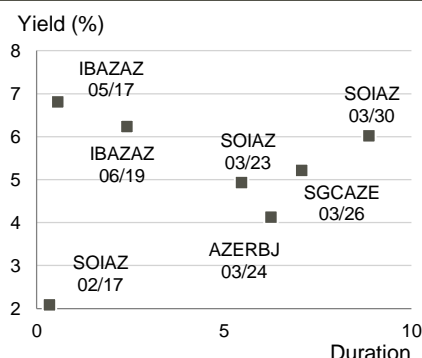
Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 104.0 (+0.2% w/w) at 4.1% yield to maturity.

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\$	101.2	99.0	108.5	99.6	98.5	112.3	104.0
Mid yield, %	2.1	4.9	6.0	6.8	6.2	5.2	4.1
Z-spread, bps	-48.7	371.0	448.2	441.9	517.8	379.4	279

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	279
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	112.2	3.9	269.2
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	121.0	0.5	-243.5
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	108.3	2.3	236.0
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	116.0	2.6	136.0
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	120.7	2.6	138.5
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	108.0	2.6	147.5
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Ba1	106.7	4.0	277.0
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	112.8	3.4	202.7

Source: Bloomberg

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