

# Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan  
October 17, 2016

## Economy

### Consolidated budget posts AZN 1.3bn surplus in 3Q16

Azerbaijan's consolidated budget revenues were up 38.4% y/y to AZN 5.7bn, while expenditures were down 7.2% y/y to AZN 4.4bn, resulting in AZN 1.3bn surplus in 3Q16, compared to AZN 0.6bn deficit in the same quarter of the previous year. Better than expected performance in 3Q16 was driven by a 76.4% y/y increase in SOFAZ revenues and 83.4% y/y increase in Customs Committee receipts.

In US\$ terms, however, revenues were down 9.5% y/y to US\$ 3.5bn, while expenditures were down 39.3% y/y to US\$ 2.7bn, resulting in US\$ 0.8bn surplus in 3Q16.

In 9M16 revenues were up 13.7% y/y to AZN 15.0bn, while expenditures were down 13.8% y/y to AZN 12.6bn, resulting in AZN 2.3bn surplus, compared to AZN 1.5bn deficit in 9M15.

### SOFAZ reserves up 3.1% y/y to US\$ 35.8bn in 3Q16

SOFAZ revenues were up 76.4% y/y to AZN 2.6bn, while expenditures were down 33.5% y/y to AZN 1.6bn, resulting in AZN 1.1bn surplus in 3Q16. In US\$ terms, revenues were up 15.4% y/y to US\$ 1.6bn, while expenditures were down 56.5% y/y to US\$ 1.0bn, leading to US\$ 0.7bn surplus. As a result, SOFAZ reserves increased 3.1% y/y to US\$ 35.8bn in 3Q16.

### Inflation rate at 14.2% y/y in September 2016

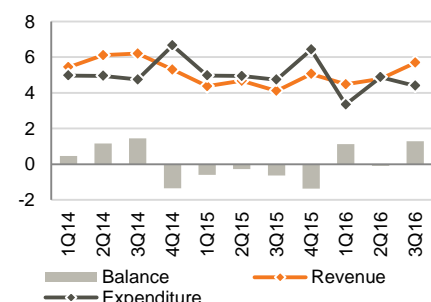
Annual CPI inflation rate accelerated further to 14.2% in September 2016 from 12.0% in the previous month, according to AzSTAT. In September, food prices were up 17.2% y/y (+3.8pts m/m), non-food prices were up 18.4% y/y (+1.7pts m/m), and service sector prices were up 7.0% y/y (+0.6pts m/m).

### SOCAR's tax payments down 12.5% y/y in September 2016

SOCAR's tax payments to the state budget were down 12.5% y/y to AZN 119.4mn in September 2016, according to SOCAR. Its payments to the State Social Protection Fund were up 8.7% y/y and reached AZN 12.9mn.

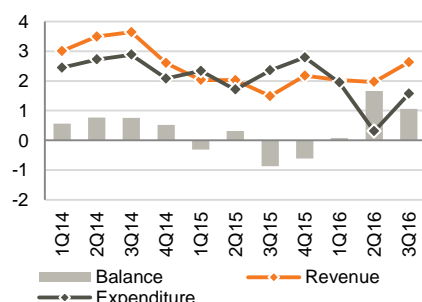
In 9M16, SOCAR's tax payments were down 9.7% y/y to AZN 1.0bn, while payments to the State Social Protection Fund were up 2.8% y/y to AZN 107.2mn.

Consolidated budget, AZN bn



Source: Ministry of Finance

SOFAZ budget, AZN bn



Source: SOFAZ

### Key macro indicators

	9M16	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)	14.2%	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)	40.0	38.6	50.9

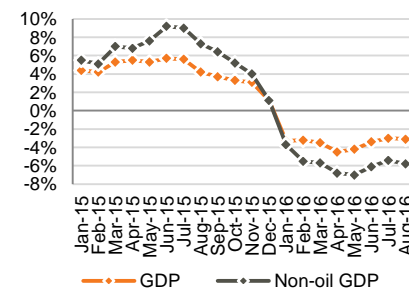
Source: Official data

\* 8M16

\*\* 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

<b>STANDARD &amp; POOR'S</b>  <b>BB+</b> Negative Jul-2016	<b>Moody's</b> INVESTORS SERVICE  <b>Ba1</b> Negative Apr-2016	<b>FitchRatings</b>  <b>BB+</b> Negative Aug-2016
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Source: Rating agencies



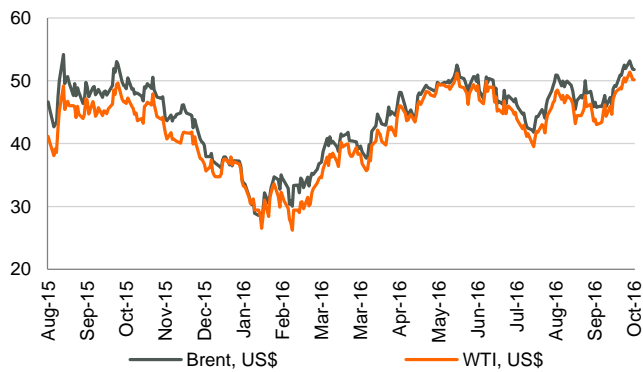
## Oil prices and exchange rate

**Oil price:** Brent oil price was down 0.3% w/w to US\$ 51.8/bbl (up 5.2% y/y), while WTI oil price increased 0.7% w/w to US\$ 50.2/bbl (up 7.5% y/y). In AZN terms, Brent oil price was down 0.8% w/w to AZN 82.6 (up 60.3% y/y).

**Exchange rate:** On October 13, 2016, Central Bank's AZN/US\$ rate was 1.5986 (-0.3% w/w) and AZN/EUR rate was 1.7609 (-1.2% w/w). At Bloomberg AZN/US\$ was trading at 1.5940 (-0.5% w/w) while AZN/EUR was trading at 1.7768 (-1.8% w/w).

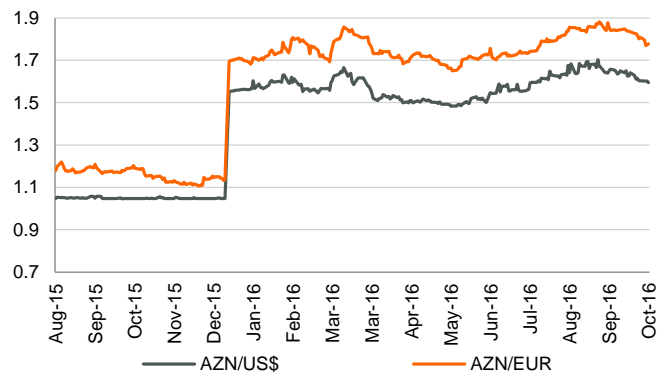
**Monetary policy rate:** Monetary policy rate was unchanged at 15.0%.

Crude oil prices (US\$/bbl)



Source: Bloomberg

Exchange rates



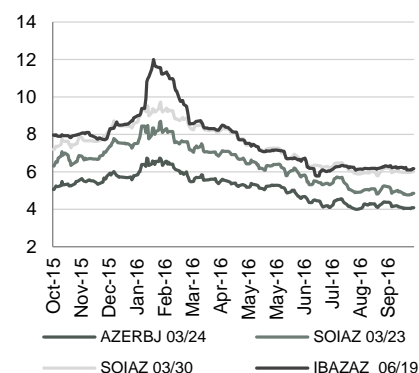
Source: Bloomberg

# Fixed income

**Corporate Eurobonds:** State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.0% yield, trading at 108.4 (+0.5% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 98.7 (-0.1% w/w), yielding 6.2%.

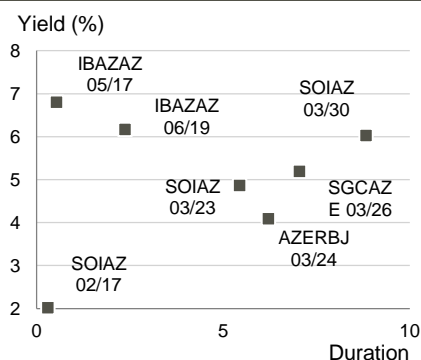
**Azerbaijan Sovereign Eurobonds** (AZERBJ 03/24) closed at 104.2 (-0.2% w/w) at 4.1% yield to maturity.

**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\$	101.1	99.4	108.4	99.7	98.7	112.4	104.2
Mid yield, %	2.0	4.9	6.0	6.8	6.2	5.2	4.1
Z-spread, bps	-26.4	344.0	432.3	431.3	511.0	362.7	262.2

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	104.2	4.1	262.2
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	112.1	3.9	258.8
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	121.0	0.5	-243.6
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	107.1	2.5	247.9
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	114.7	2.8	153.6
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	118.8	2.9	157.7
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	106.9	2.9	167.9
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Ba1	106.6	4.0	270.2
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	111.3	3.6	208.7

Source: Bloomberg

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## **Galt & Taggart**

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

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

**Email:** gt@gt.ge