



# Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan  
September 12, 2016

## Economy

### Refinancing rate up from 9.5% to 15.0%

Central Bank of Azerbaijan increased its key refinancing rate from 9.5% to 15.0%, effective September 14, 2016. This move marks the fourth rate hike by CBAR in 2016, from as low as 3.0% in the beginning of the year.

In its statement, CBAR announced that given the changes in domestic and foreign factors affecting inflation, it deems necessary to implement some anti-inflationary policies, of which the rate increase is one, while an increase in FX supply at auctions was another.

### Tax revenues slightly above the budgeted level

According to the Ministry of Taxes, its tax revenues in 8M16 stood at AZN 4.4bn, or 100.3% of the budgeted figure. However, compared to 8M15, revenues are down 4.7% y/y. In monthly terms, revenues in August 2016 were up 8.8% y/y to AZN 0.5bn.

### Banks' foreign assets more than halved over a four-month period

After four consecutive months of decline, commercial banks' foreign assets are down 52.1% to US\$ 2.8bn as of July 2016, compared to a peak of US\$ 5.9bn in March 2016. In month-to-month terms, foreign assets were down 10.1% in July. Markedly, foreign liabilities were also down 5.5% m/m to US\$ 4.1bn.

### Loan portfolio down 9.3% m/m in July 2016

Commercial banks' loan portfolio was down 9.3% m/m (-17.2% y/y) in July 2016 to AZN 16.7bn, driven by a 23.0% m/m decrease in loans to construction and real estate and a 10.8% fall in loans to households (excluding mortgage loans).

### Dollarization ratios broadly flat

Compared to the previous month, deposit and loan dollarization ratios were broadly flat in July 2016, with the deposit dollarization ratio at 80.0% and the loan dollarization ratio at 48.3%. Excluding deposits of non-residents and the central government, the deposit dollarization ratio was at 72.1%.

### NPL ratio up to 9.0% in July 2016

Non-performing loans were down 2.3% m/m in July 2016 to AZN 1.5bn, driven by an 8.6% m/m decrease in NPL in local currency (LC) loans, whereas problematic FX loans were up 4.2% m/m. As a result, the NPL ratio in LC loans remained relatively flat at 8.2%, while in FX, the ratio was up to 9.8% in July 2016 (from 8.6% in June 2016). In aggregate terms, as total loans decreased, the NPL ratio increased further to 9.0% in July 2016.

CBAR refinancing rate



Source: CBAR

NPL ratios



Source: CBAR

### Key macro indicators

|                                 | 7M16   | 2015   | 2014   |
|---------------------------------|--------|--------|--------|
| GDP (% change)                  | -3.0%  | 1.1%   | 2.8%   |
| NO* GDP (% change)              | -5.4%  | 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)                 | 11.3%  | 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)***    | 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   |

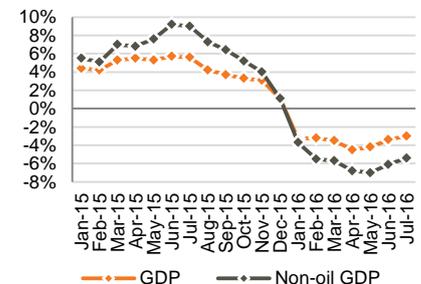
Source: Official data

\* Non-oil

\*\*1Q16

\*\*\*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 # 40 (regional leader)

Source: World Bank, Heritage Foundation and World Economic Forum

### Azerbaijan sovereign credit ratings

|                                      |  |  |
|--------------------------------------|--|--|
| <br><b>BB+</b><br>Stable<br>Jan-2016 | <br><b>Ba1</b><br>Negative<br>Apr-2016 | <br><b>BB+</b><br>Negative<br>Aug-2016 |
|--------------------------------------|--|--|

Source: Rating agencies

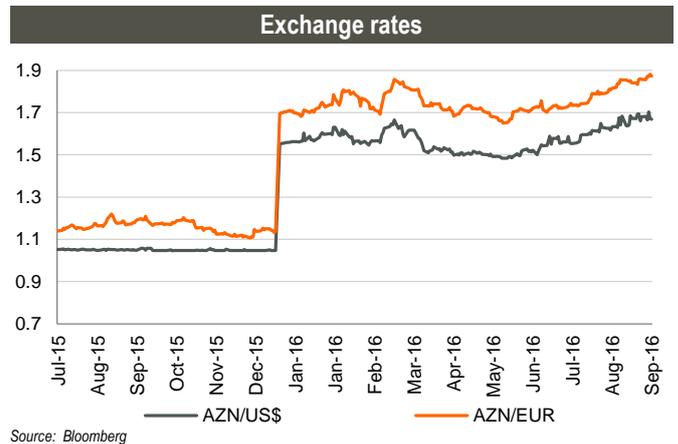
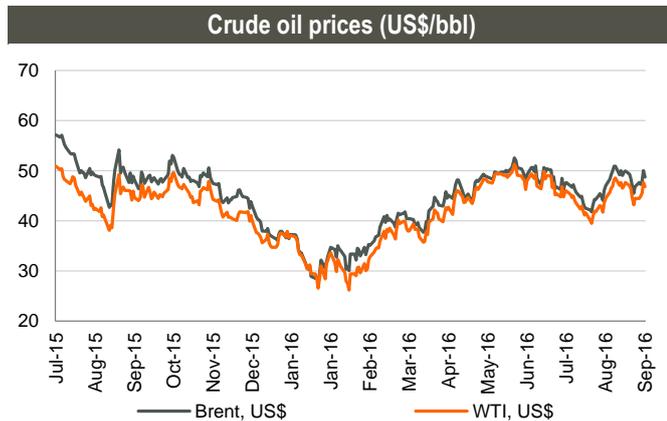
# Oil prices and exchange rate

**Oil price:** Brent oil price was up 4.0% w/w to US\$ 48.7/bbl (up 2.4% y/y), while WTI oil price increased 5.3% w/w to US\$ 46.8/bbl (up 6.0% y/y). In AZN terms, Brent oil price was up 3.2% w/w to AZN 81.2 (up 62.8% y/y).

**Exchange rate:** On September 9, 2016, Central Bank set AZN/US\$ rate at 1.6403 (+0.3% w/w) and AZN/EUR at 1.8498 (+0.9% w/w). At Bloomberg AZN/US\$ was trading at 1.6675 (-0.7% w/w) while AZN/EUR was trading at 1.8725 (+0.8% w/w).

**Monetary policy rate:** Monetary policy rate was increased from 9.5% to 15.0%.

**FX auctions:** In two FX auctions organized by the Central Bank over the last week, State Oil Fund and Central Bank sold US\$ 350.0mn to commercial banks.



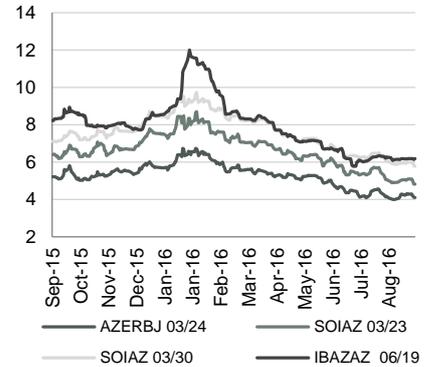


## Fixed income

**Corporate Eurobonds:** State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 5.9% yield, trading at 110.1 (+1.3% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 98.6 (+0.0% w/w), yielding 6.2%.

**Azerbaijan Sovereign Eurobonds** (AZERBJ 03/24) closed at 103.7 (+0.8% w/w) at 4.2% yield to maturity.

**Azerbaijan Eurobonds, YTM (%)**

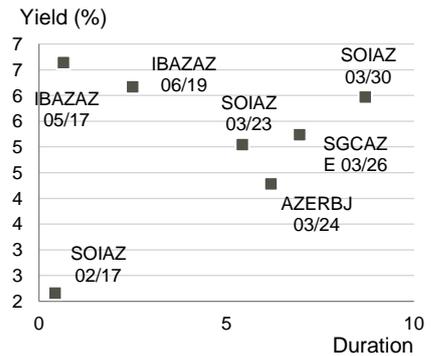


Source: Bloomberg

|                   | 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     | BB+ /Ba1 |
| Mid price, US\$   | 101.3        | 99.4         | 110.1        | 99.8         | 98.6         | 113.6        | 103.7        |          |
| Mid yield, %      | 2.2          | 4.9          | 5.9          | 6.5          | 6.2          | 5.1          | 4.2          |          |
| Z-spread, bps     | 19.2         | 346.2        | 423.8        | 446.3        | 507.5        | 359.5        | 275.3        |          |

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               | 103.7           | 4.2          | 275.3         |
| Georgia    | 500             | 6.875%    | 4/12/2021     | BB-/BB-/Ba3               | 112.5           | 3.9          | 260.1         |
| Bulgaria   | 323             | 5.000%    | 7/19/2021     | BBB-/BB+/Baa2             | 121.3           | 0.5          | -240.3        |
| Croatia    | 1,250           | 3.875%    | 5/30/2022     | BB/BB/Ba1                 | 108.1           | 2.3          | 235.9         |
| Hungary    | 3,000           | 6.375%    | 3/29/2021     | BB+/BB+/Ba1               | 115.3           | 2.8          | 142.3         |
| Romania    | 2,250           | 6.750%    | 2/7/2022      | BBB-/BBB-/Baa3            | 121             | 2.6          | 131.5         |
| Russia     | 3,500           | 5.000%    | 4/29/2020     | BBB-/BB+/Ba1              | 108.2           | 2.6          | 141.9         |
| Turkey     | 2,000           | 5.625%    | 3/30/2021     | BBB-/BB+/Baa3             | 107.7           | 3.8          | 252.3         |
| Kazakhstan | 2,500           | 5.125%    | 7/21/2025     | BBB+/BBB-/Baa2            | 113.1           | 3.4          | 193.2         |

Source: Bloomberg



## Disclaimer

This document is strictly confidential and has been prepared by JSC Galt & Taggart ("Galt & Taggart"), a member of JSC Bank of Georgia group ("Group") solely for informational purposes and independently of the respective companies mentioned herein. This document does not constitute or form part of, and should not be construed as, an offer or solicitation or invitation of an offer to buy, sell or subscribe for any securities or assets and nothing contained herein shall form the basis of any contract or commitment whatsoever or shall be considered as a recommendation to take any such actions.

Galt & Taggart is authorized to perform professional activities on the Georgian market. The distribution of this document in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by Galt & Taggart to inform themselves about and to observe any and all restrictions applicable to them. This document is not directed to, or intended for distribution, directly or indirectly, to, or use by, any person or entity that is a citizen or resident located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction.

Investments (or any short-term transactions) in emerging markets involve significant risk and volatility and may not be suitable for everyone. The recipients of this document must make their own investment decisions as they believe appropriate based on their specific objectives and financial situation. When doing so, such recipients should be sure to make their own assessment of the risks inherent in emerging market investments, including potential political and economic instability, other political risks including without limitation changes to laws and tariffs, and nationalization of assets, and currency exchange risk.

No representation, warranty or undertaking, express or implied, is or will be made by Galt & Taggart or any other member of the Group or their respective directors, employees, affiliates, advisers or agents or any other person as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of this document and the information contained herein (and whether any information has been omitted from this document) and no reliance should be placed on it. This document should not be considered as a complete description of the markets, industries and/or companies referred to herein. Nothing contained in this document is, is to be construed as, or shall be relied on as legal, investment, business or tax advice, whether relating to the past or the future, by Galt & Taggart any other member of the Group or any of their respective directors, employees, affiliates, advisers or agents in any respect. Recipients are required to make their own independent investigation and appraisal of the matters discussed herein. Any investment decision should be made at the investor's sole discretion. To the extent permitted by law, Galt & Taggart, any other member of the Group and their respective directors, employees, affiliates, advisers and agents disclaim all liability whatsoever (in negligence or otherwise) for any loss or damages however arising, directly or indirectly, from any use of this document or its contents or otherwise arising in connection with this document, or for any act, or failure to act, by any party, on the basis of this document.

The information in this document is subject to verification, completion and change without notice and Galt & Taggart is not under any obligation to update or keep current the information contained herein. The delivery of this document shall not, under any circumstances, create any implication that there has been no change in the information since the date hereof or the date upon which this document has been most recently updated, or that the information contained in this document is correct as at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. No representation or warranty, expressed or implied, is made by Galt & Taggart or any other member of the Group, or any of their respective directors, employees, affiliates, advisers or agents with respect to the accuracy or completeness of such information.

The information provided and opinions expressed in this document are based on the information available as of the issue date and are solely those of Galt & Taggart as part of its internal research coverage. Opinions, forecasts and estimates contained herein are based on information obtained from third party sources believed to be reliable and in good faith, and may change without notice. Third party publications, studies and surveys generally state that the data contained therein have been obtained from sources believed to be reliable, but that there is no guarantee of the accuracy or completeness of such data. Accordingly, undue reliance should not be placed on any such data contained in this document. Neither Galt & Taggart, any other member of the Group, nor their respective directors, employees, affiliates, advisors or agents make any representation or warranty, express or implied, of this document's usefulness in predicting the future performance, or in estimating the current or future value, of any security or asset.

Galt & Taggart does, and seeks to do, and any other member of the Group may or seek to do business with companies covered in its research. As a result, investors should be aware of a potential conflict of interest that may affect the objectivity of the information contained in this document.

This document is confidential to clients of Galt & Taggart. Unauthorized copying, distribution, publication or retransmission of all or any part of this document by any medium or in any form for any purpose is strictly prohibited.

The recipients of this document are responsible for protecting against viruses and other destructive items. Receipt of the electronic transmission is at risk of the recipient and it is his/her responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

### **Galt & Taggart**

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

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

**Email:** gt@gt.ge