



# Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan  
December 26, 2016

## Economy

### TANAP project to receive US\$ 1.4 bn in IFI loans

The World Bank approved a US\$ 0.8bn loan for the Trans-Anatolian Natural Gas Pipeline (TANAP), which will transport gas from Azerbaijan's Shah-Deniz field to Turkey and further across the country to Europe. The loan will be allocated 50/50 to Turkey and Azerbaijan. In addition, Asian Infrastructure and Investment Bank (AIIB) approved a US\$ 0.6bn loan for TANAP. Earlier, Asian Development Bank approved US\$ 1.0bn in private and public sector assistance for the development of Shah-Deniz Stage 2.

### Current account posted a US\$ 311.4mn deficit in 3Q16

Azerbaijan's current account posted a US\$ 311.4mn deficit in 3Q16, the fourth quarterly deficit in a row. The current account was in surplus (US\$ 177.3mn) in 3Q15. The deficit was driven by a 9.6% y/y decline in oil exports and a 12.3% y/y increase in non-oil imports, which led to a narrowing of the trade surplus from US\$ 1.5bn in 3Q15 to US\$ 1.0bn in 3Q16. Primary and secondary income balances also worsened. The tourism sector moved from a US\$ 140.6mn deficit in 3Q15 to a US\$ 239.3mn surplus in 3Q16, leading to the general service deficit narrowing from US\$ 1.0bn to US\$ 0.5bn. However, the improvement in the services balance was not enough to compensate for the deterioration in the other components of the current account balance.

### Reserves increased in 3Q16

On the financing side, net FDI almost tripled in 3Q16 to US\$ 0.6bn, compared to the same quarter of the previous year, on the back of relatively strong non-oil FDI. Net outflows from portfolio and other investments (P&O) declined from US\$ 752.7mn in 3Q15 to US\$ 354.5mn in 3Q16 and there was an inflow of US\$ 166.8mn from net errors and omissions, compared to an outflow of US\$ 2.7bn in 3Q15. As a result of better financing flows, reserves increased marginally (+US\$ 62.5mn) in 3Q16, compared to a decline of US\$ 2.8bn in 3Q15.

### Key macro indicators

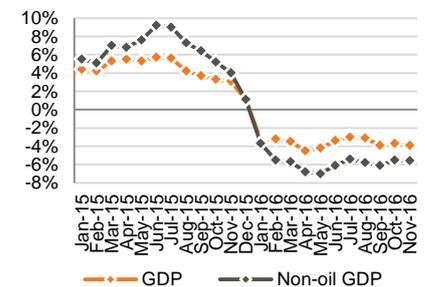
	10M16	2015	2014
GDP (% change)	-3.9%	1.1%	2.8%
NO* GDP (% change)	-5.6%	1.1%	7.0%
GDP per capita (ppp)	...	17,993	17,762
GDP per capita (US\$)	...	5,739	8,055
Population (mn)	...	9.7	9.6
Inflation (eop)	17.1%	7.7%	-0.1%
CAB (% of GDP)**	-4.0%	-0.4%	13.9%
NO* CAB (% of NOGDP)**	-22.7%	-18.4%	-16.5%
Fiscal 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

\*\*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)

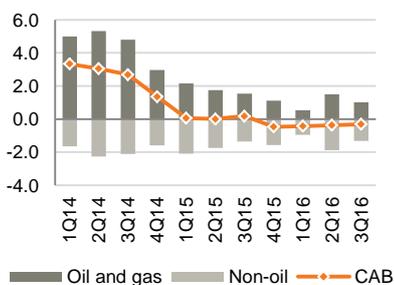
Source: World Bank, Heritage Foundation and World Economic Forum

### Azerbaijan sovereign credit ratings

 <b>BB+</b> Negative Jul-2016	 <b>Ba1</b> Negative Apr-2016	 <b>BB+</b> Negative Aug-2016
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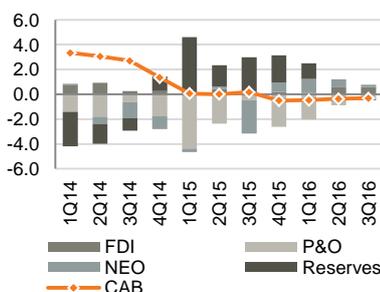
Source: Rating agencies

### Current account balance (CAB), US\$ bn



Source: CBAR

### Financial account, US\$ bn



Source: CBAR

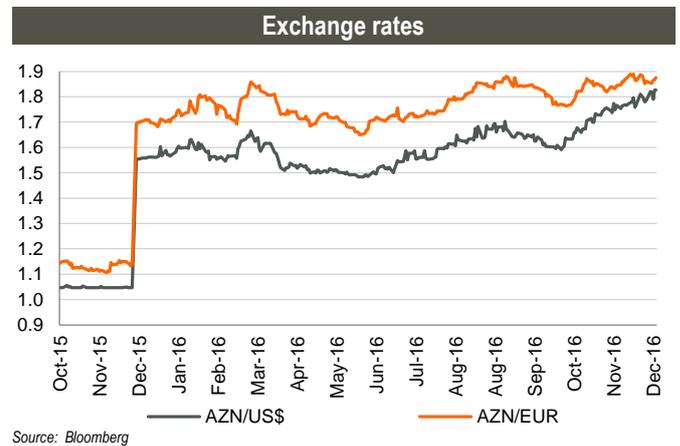
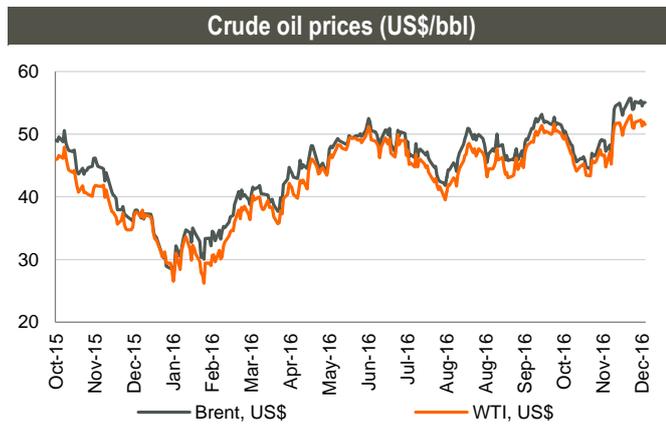


## Oil prices and exchange rate

**Oil price:** Brent oil price was down 0.3% w/w to US\$ 55.1/bbl (up 47.4% y/y), while WTI oil price decreased 0.7% w/w to US\$ 51.5/bbl (up 39.7% y/y). In AZN terms, Brent oil price was up 2.0% w/w to AZN 94.1 (up 73.1% y/y).

**Exchange rate:** On December 23, 2016, Central Bank's AZN/US\$ rate was 1.7622 (+0.6% w/w) and AZN/EUR rate was 1.8412 (+0.7% w/w). At Bloomberg AZN/US\$ was trading at 1.8262 (+2.3% w/w) while AZN/EUR was trading at 1.8758 (+0.7% w/w).

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



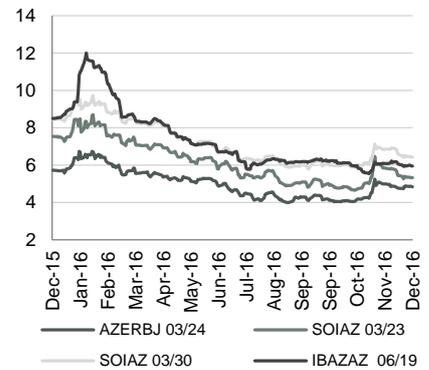


## Fixed income

**Corporate Eurobonds:** State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.4% yield, trading at 104.7 (+0.5% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 99.3 (+0.0% w/w), yielding 6.0%.

**Azerbaijan Sovereign Eurobonds (AZERBJ 03/24)** closed at 99.5 (+0.3% w/w) at 4.8% yield to maturity.

**Azerbaijan Eurobonds, YTM (%)**

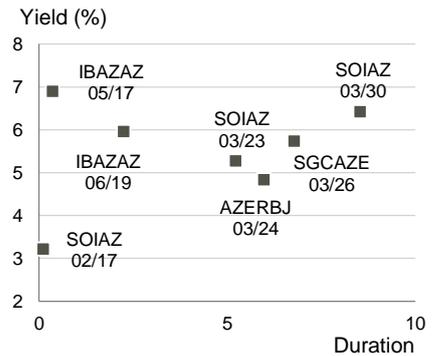


Source: Bloomberg

	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	
Mid price, US\$	100.2	97.2	104.7	99.7	99.3	108.1	99.5	
Mid yield, %	3.2	5.3	6.4	6.9	6.0	5.7	4.8	
Z-spread, bps	-80.3	308.3	392.9	488.4	416.6	335.3	252.3	

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	99.5	4.8	252.3
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	109.7	4.4	233.0
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	120.3	0.5	-237.7
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	107.6	2.4	215.5
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	112.2	3.3	133.9
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	113.9	3.7	163.8
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	106.1	3.1	114.5
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Ba1	102.5	5.0	289.9
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	106.8	4.2	180.1

Source: Bloomberg



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