



# Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan  
February 27, 2017

## Economy

### Number of international arrivals up 12.1% y/y in 2016

The number of foreign arrivals to Azerbaijan increased 12.1% y/y in 2016 to 2.2mn. However, that number is down 10.4% from the 2013 high of 2.5mn. The biggest contribution to growth in 2016 came from visitors from Iran (+66.9% y/y), Iraq (+2,900.0% y/y), Russia (+8.6% y/y), and UAE (+2,100.0% y/y). With 0.7mn visitors, Russia tops the list of arrivals to Azerbaijan, followed by Georgia (0.5mn), Turkey (0.3mn), and Iran (0.2mn). While the number of arrivals from the wider Persian Gulf region was up significantly, their share in total arrivals is low, with visitors from Iraq and UAE accounting for 2.9% and 2.3% of total arrivals in 2016, respectively.

### Commercially available oil production down, gas production up in January 2017

Crude oil production in Azerbaijan was down 4.3% y/y in January 2017 to 3.4mn tons. Oil production has been falling for the 5<sup>th</sup> month in a row. The contraction in January was driven by a 5.2% y/y decline in non-SOCAR production, while SOCAR production was down 0.3% y/y. According to SOCAR, gross gas production was down 1.9% y/y in January 2017 to 2.5bcm. However, according to AzSTAT, production of commercially available (gross minus re-injected) gas was up 6.1% y/y to 1.7bcm.

### Azerbaijan ranks 68th in the 2017 Economic Freedom Index

According to the 2017 Index of Economic Freedom by the Heritage Foundation, Azerbaijan is ranked 68<sup>th</sup> (up from 91<sup>st</sup> in 2016) out of 186. Azerbaijan's overall score has increased by 3.4 points to 63.6 compared to 2016 and the country remains in the "moderately free" category.

Azerbaijan ranks 24<sup>th</sup> in "fiscal health," 26<sup>th</sup> in "labor freedom," 33<sup>rd</sup> in "tax burden," and 60<sup>th</sup> in "business freedom." Azerbaijan ranks poorly in "monetary freedom" (131<sup>st</sup>), "judicial effectiveness" (125<sup>th</sup>), "government spending" (120<sup>th</sup>), "trade freedom" (112<sup>th</sup>), and "investment freedom" (103<sup>rd</sup>).

### Key macro indicators

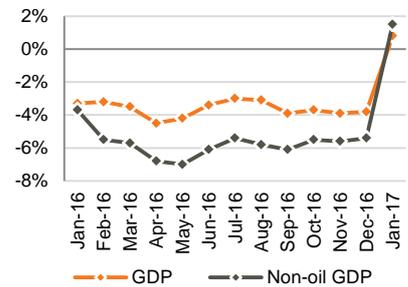
	1M16	2016	2015
GDP (% change)	0.8%	-3.8%	1.1%
NO* GDP (% change)	1.5%	-5.4%	1.1%
GDP per capita (ppp)	...	...	17,993
GDP per capita (US\$)	...	3,897	5,559
Population (mn)	...	9.8	9.7
Inflation (eop)	11.9%	15.5%	7.7%
CAB (% of GDP)**	-4.0%	...	-0.4%
NO* CAB (% of NOGDP)**	-22.7%	...	-18.4%
Fiscal balance (% of GDP)	...	0.3%	-5.3%
NO* fiscal bal. (% of NOGDP)	...	-14.5%	-33.7%
Gross reserves (US\$ bn)	...	37.1	38.6

Source: Official data

\* Non-oil

\*\* 9M16

### Real GDP growth, % (YTD)



Source: AzSTAT

### International ranking of Azerbaijan

Ease of Doing Business # 65

Economic Freedom Index # 68 (moderately free)

Global Competitiveness Index # 37 (regional leader)

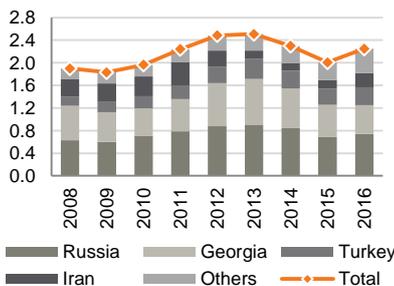
Source: World Bank, Heritage Foundation and World Economic Forum

### Azerbaijan sovereign credit ratings



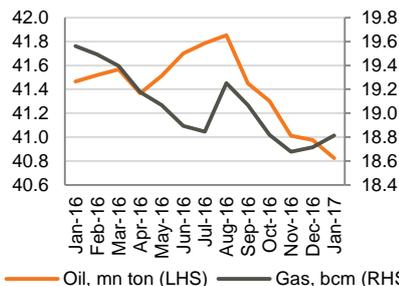
Source: Rating agencies

### Foreign arrivals to Azerbaijan, mn persons



Source: AzSTAT

### Oil and gas\* production, 12 months cumulative sum



Source: AzSTAT

\*Commercially available

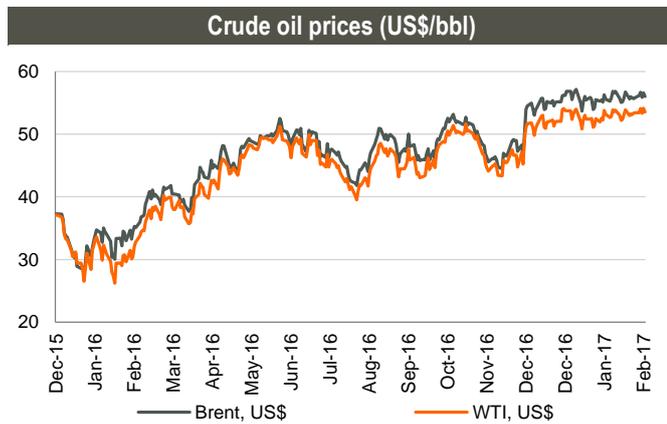


## Oil prices and exchange rate

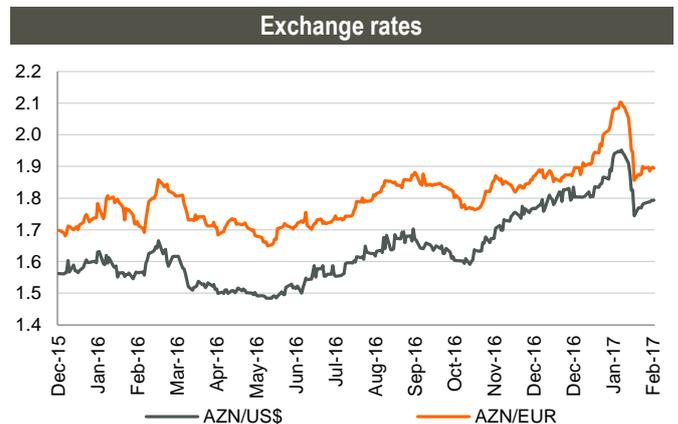
**Oil price:** Brent oil price was up 0.3% w/w to US\$ 56.0/bbl (up 62.7% y/y), while WTI oil price increased 0.2% w/w to US\$ 53.5/bbl (up 76.0% y/y). In AZN terms, Brent oil price was up 0.9% w/w to AZN 100.4 (up 86.3% y/y).

**Exchange rate:** On February 24, 2016, Central Bank's AZN/US\$ rate was 1.7475 (+0.7% w/w) and AZN/EUR rate was 1.8490 (-0.2% w/w). At Bloomberg AZN/US\$ was trading at 1.7938 (+0.6% w/w) while AZN/EUR was trading at 1.8945 (+0.0% w/w).

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



Source: Bloomberg



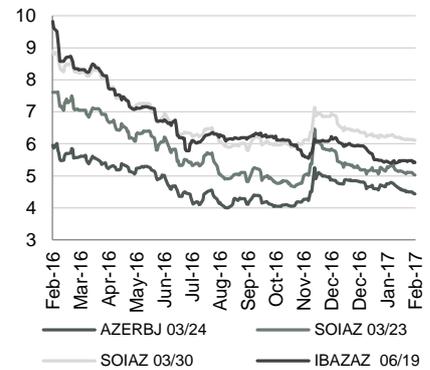
Source: Bloomberg

## Fixed income

**Corporate Eurobonds:** State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.1% yield, trading at 107.6 (+0.3% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 100.4 (+0.1% w/w), yielding 5.4%.

**Azerbaijan Sovereign Eurobonds (AZERBJ 03/24)** closed at 101.8 (+0.3% w/w) at 4.4% yield to maturity.

### Azerbaijan Eurobonds, YTM (%)

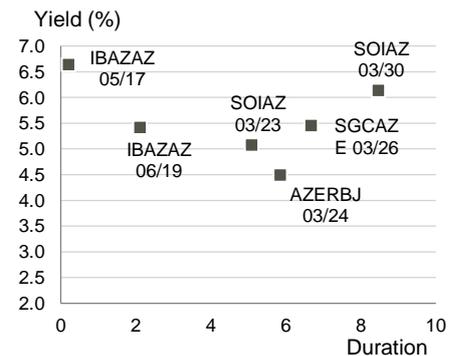


Source: Bloomberg

	Eurobonds					
	SOIAZ 03/23	SOIAZ 03/30	IBAZAZ 05/17	IBAZAZ 06/19	SGCAZE 03/26	AZERBJ 03/24
Amount, US\$ mn	1000	750	100	500	1,000	1,250
Issue date	Mar-13	Mar-15	May-07	Jun-14	Mar-16	Mar-14
Maturity date	Mar-23	Mar-30	May-17	Jun-19	Mar-26	Mar-24
Coupon, %	4.750%	6.950%	6.170%	5.625%	6.875%	4.750%
Fitch/S&P/Moody's	BB+/BB	/Ba1	BB+/BB	/Ba1	BB-/Ba3	BB-/Ba3
Mid price, US\$	98.6	107.6	99.9	100.4	110.4	101.8
Mid yield, %	5.0	6.1	6.8	5.4	5.4	4.4
Z-spread, bps	306.9	370.0	384.8	366.4	323.8	228.9

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	101.8	4.4	228.9
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	111.5	3.8	188.0
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	120.3	0.3	-235.7
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba2	108.7	2.1	197.8
Hungary	3,000	6.375%	3/29/2021	BBB-/BBB-/Baa3	112.3	3.1	120.0
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	115.6	3.3	137.0
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	107.7	2.4	62.7
Turkey	2,000	5.625%	3/30/2021	BB+/BB/Ba1	104.3	4.5	253.2
Kazakhstan	2,500	5.125%	7/21/2025	BBB/BBB-/Baa3	108.5	3.9	170.7

Source: Bloomberg



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