



Ukraine and the Caucasus

Trip Notes

We visited the former Soviet republics of Ukraine, Azerbaijan, Georgia and Armenia during October. We met with several policy officials, presidential candidates and other politicians, financial institutions, investors, journalists, diplomats, multinational institutions, corporations and political analysts.

The four countries are still suffering from the aftershock of the breakup of the Soviet Union in the form of low intensity military conflicts, powerful oligarchs and geopolitical uncertainty. However, there is generally also a strong reform drive, both economically, socially and politically. All countries have ample resources, be it in the form of human capital or natural resources and potential for even faster growth, but they also need increased foreign direct investments to unlock that potential.

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- We attended 36 meetings with a wide range of stakeholders, during five days in four countries.
- We are very positive on Georgia and are invested in local currency instruments in our frontier strategy. We consider the dollar-denominated debt to be expensive and are currently not involved.
- We remain negative on Ukrainian sovereign debt and keep the country in red in our traffic light model. We are positive on local currency returns in the long run, but have tactically reduced our exposure in currency derivatives due to FX-seasonality.
- Correspondingly, we are very positive on Armenian and Azerbaijani external and domestic debt and remain invested in sovereign bonds in our hard currency strategy and in local currency instruments in our frontier strategy.

Ukraine

There were two clearly dominating themes currently in the country, the International Monetary Fund Stand By Agreement (SBA) and next year's presidential and parliamentary elections. Ukraine has a few challenging years ahead of them, as the political uncertainty from the election cycle is coupled with a wall of loan maturities denominated in foreign currency.

2019 will be Dominated by Political Uncertainty

The result of the presidential elections is still extremely unclear, but the two front runners currently appear to be Yulia Tymoshenko and Petro Poroshenko. The election will be fought over issues such as corruption, living standards and health services. The base case is that Poroshenko will secure a second term, and the reform agenda will continue with cooperation with the IMF, although at a slow pace. Tymoshenko has made very market negative comments, including compromising central bank independence by threatening to detain the governor and speaking against hiking gas tariffs, a central reform demanded by the IMF. The independent candidate Svyatoslav Vakarchuk, who hasn't announced his candidacy, but already polls at 7%, could be a true game changer for the country, as he is completely non-aligned to vested interests and oligarchs and has a strong anti-corruption, yet pragmatic vision for the future of the country. Foreign influence was a worry to several of the people we met, especially in the Rada-elections in October of 2019. It is the Rada that prepares the budget and decides in economic matters, so these elections are almost as important as the presidential ones.

There are some pro-Russian parties, but they can not gain too much ground, as a large percentage of Ukrainians view their future in Europe and both the political elite and the people see their country as inherently European, both culturally and historically.

IMF - Should I Stay or Should I Go?

The second theme, the IMF, is related to the election cycle: The IMF wanted to sustain the reform momentum in the country throughout the election period, when the reform

” The country managed to access external debt markets on the back of the staff-level agreement and issued USD 2 billion worth of bonds. ”

potential is naturally smaller. The current Extended Fund Facility (EFF) is on hold and will expire in early 2019 and so it was replaced with a shorter, 14-month SBA of around USD 3.9 billion. The country managed to access external debt markets on the back of the staff-level agreement on the SBA and issued USD 2 billion worth of bonds.

Now the focus will be more on macroeconomic stability, i.e. the budget of 2019 and gas tariff hikes. The staff-level agreement reached on the 19th of October is conditional on gas and heating tariff hikes that actually reach end consumers and the passing of an IMF-compliant final budget for 2019. The final budget will be passed in December at the earliest and the first disbursement will only be after executive board approval, realistically in early 2019.

Gas tariffs are politically very sensitive, and nobody wants to own the reform, especially with the elections approaching. At the same time, it is a requirement of the IMF to increase the end user tariffs to market prices (around 70% increase). Ukrainians also use much more energy than the average European, so there is ample space to economise.

Some concern has been evoked around the president's tax reform on distributed dividends, that would create a lasting effect on the budget of the size of around 1.5% of GDP.

Even if the current IMF-program was never completed, it was still the first time that more than the first tranche had been paid, and though the reform momentum slowed down, many experts said that more reforms were made in the last few years than in the previous two decades. The future of the cooperation between the IMF and Ukraine will depend very

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much on the presidential election and future government of the country.

Unlocking Vast Potential

Ukraine has huge potential in several areas. The country is situated close to large European markets, which supports manufacturing and make commodity exports and tourism more competitive. Ukraine has an unparalleled competitive advantage in agriculture, as it has 36% of global black soil reserves. Human capital is of high quality, the country used produce rockets and other advanced products, so here is much potential in e.g. the IT-sector. Also, there are large deposits of shale-gas in the country.

Technology and investments are needed into all of these sectors and FDI is one key towards sustained higher growth. Political and economic stability is, in turn, the key to FDI. Later on, if the government manages to strengthen the rule of law, law enforcement and property right protection, further FDI could be received.

The longer-term reforms that could increase potential growth in the country include the liberalisation of agricultural land, large scale privatisation, a truly competitive gas market and a comprehensive reform of the revenue administration.

Anti-corruption efforts are advancing, and the audit of the National Anti-Corruption Bureau should coincide with the operational readiness of the Anti-Corruption Court in the summer of 2019. These events will be followed very closely.

There is not a Turkey-style economic crisis in the country, but the solutions to unlocking the full economic potential are known to everyone, it will just take a lot of political capital and boldness to eradicate corruption and the political power of the oligarchs.

The Great Game Continues

Ukraine is a strategic area for Russia (almost 30% of all East Slavs live there), but also for the West, and therefore it is also in the IMF's interest to help to stabilise Ukraine.

The great geopolitical game was tangible during our visit, as the issue of autocephaly of the Ukrainian Orthodox Church was unfolding throughout the week, ending in the potential rupture of Easter Christianity. The Patriarchate of Moscow still legally owns several key cathedrals in Ukraine, and there is a risk that that certain elements might use this fact to instigate violence. The independence of the Ukrainian Orthodox Church is a very popular among the population and has been somewhat of a booster for Poroshenko's campaign

There is still an ongoing conflict in the eastern part of the country and there are reports of escalation of Russian intimidation of Ukrainian vessels in the Azov Sea. The Donbass was sealed off from the rest of the Ukrainian economy in 2017, due to pressure from veterans and the public. 20% of Ukraine's economic activity was in the east and

Was thus lost. We do not see an immediate trigger for de-escalation of the situation but expect the status quo to continue for the foreseeable future.

Central Bank Anchor in the Economy

The Ukrainian central bank in is considered highly professional job and has been somewhat of an anchor in the economy. It is considered widely reformed and independent.

Inflation will reach the target range of 5% ± 1 in 2019 on the back of the policy rate increases in 2018, although the dollarization rate (40% of deposits) is hampering monetary policy transmission. The current account deficit is also not seen as a major issue (IMF: -3.1% in -2018 and -3.9% 2019).

Currently, the central bank is pursuing a very tight monetary policy, with the key rate being 18% and the high real rates support the currency. The central bank considers the currency to be fairly valued and continues to increase reserves by buying dollars. The forecast for reserves for year end of -19 is USD 20 billion, the latest figure is USD 16.7 billion.

The central bank will start loosening monetary policy only when the inflation path is sustainable and considers policy consistency important for UAH credibility. Local banks we spoke to do not think they can start easing before the presidential elections however.

The banking sector is fairly sterile nowadays and Ukrainian households are considered to be underleveraged.

The hryvnia still shows some seasonality due to gas imports, farmers selling grain in the autumn in UAH and buy USD and then selling USD to buy seeds in the spring and ports freezing during the winter, slowing exports. The hryvnia bottom tends to be in January and it cannot bottom before December's budget spending, as this typically goes into dollars in the end. We were told that locals tend to be quite resilient to elections uncertainty. There are talks that Clearstream will start settling local bonds in H12019, which would be a positive in the long run.

The GDP-warrants were also topical, and everyone agrees that they will prove expensive for the country with current growth. The warrants include a cross-default clause to the Eurobonds, most locals agree that the contract must be respected, but they hope that there could be some kind of agreement between the state and the holders of the warrants about moderating the terms somewhat.

"Ukraine has an unparalleled competitive advantage in agriculture, as it has 36% of global black soil reserves"

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Our View

We keep our country fundamental view on red in our traffic light model and thus refrain fully from investing directly in the sovereign. We would first like to see a continued commitment to reforms, anchored by the IMF, political continuity and further concrete steps in anti-corruption efforts. Furthermore, the government liquidity management is in our opinion too irresponsible to justify investments currently.

We remain strategically positive on investments in UAH through currency derivatives and supranational AAA-issuers, due to the country's long term prospects, high real rates and central bank credibility. We have decreased these investments tactically in Q3, due to UAH-seasonality, but remain prepared to increase the allocation in early 2019.

Armenia

A Velvet Revolution Against Corruption

Armenia went through a peaceful revolution in the spring of 2018, when mass protests emerged against the Republican party government and the continuation of rule under prime minister Serzh Sargsyan. The leader of the movement, Nikol Pashinyan, was later elected as prime minister by the parliament, but parliament still remained in the hands of the unpopular Republican Party. To remove this deadlock, Pashinyan eventually stepped down as prime minister in October, forcing an early election, most likely held on the 9th of December. The new parliament will represent the current political situation, where the Pashinyan led alliance, Yelk, will probably receive around 80% of votes (if the newly held municipal elections in Yerevan, which is 40% of the country, are a good indicator). Pashinyan is likely to receive a very strong mandate from the people to tackle structural impediments to prosperity. One of the biggest problems in the country has been corruption, and everyone we met agreed that it has come down very significantly after the change in government: the system was top-down and the new regime has strongly signalled that all forms of corruption will be punished.

Reforms will Considerably Improve Investment Environment

The economy has historically been plagued by oligarch owned monopolies. However, most of the structural reasons for their existence have been dismantled, e.g. sector or company specific tax breaks, unfair customs practices or outright corruption within the bureaucracy. The former sugar and banana monopolies have already been broken up and there are hopes that there will be new entrants into the grocery and retail market soon. A few experts felt that there might be too much focus on fanatically promoting competition in every sector of the economy, as the market is

quite small and all sectors might not attract international competition due to their small size. As a result of this, many of the former monopolies are still present in the market. They have a historically dominant position, established logistical and customer networks, which act as a natural barrier of entry, even in the absence of unfair practices. For example, the monopoly of Gazprom on gas is expected to continue unchallenged.

The reforms are going in the right direction and if sustained, with time, the economy will become more competitive. There are around seven million Armenians living outside the border of Armenia, mostly in the US, France and Russia, and there is apparently clear willingness to invest when the field is levelled, and they can expect equal treatment and rule of law under the new government. The new government is considered to be completely incorrupt and there is a genuine feeling of opportunity for change and that the country can get rid of the oligarch based political and economic system and install free and open markets.

”the new regime has strongly signalled that all forms of corruption will be punished”

Another of the already implemented reforms has been to bring over 20 thousand jobs into the official economy from the shadow sector. Analysts expect the biggest future reforms to be within the tax system, i.e. lower and simpler taxes and at the same time bringing more of the shadow economy into the light, cutting corruption (reform anti-corruption agency and judiciary) and the size of the government. If the reform agenda of the government is clear, the economic policies remain perhaps the biggest question mark. At the same time, we believe that the aforementioned reforms can take the lead over any economic policies and help to sustain growth over the following years through e.g. increased foreign investments.

Even though there is a strong reform momentum in the country, the government has been practical enough to retain several key bureaucrats to ensure operational continuity, for example the finance minister and chief of police. We consider this as a positive sign of pragmatism, which will be needed as the government commences to staff the administration, as there is a danger that many new reformers will lack the experience.

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The government has temporarily revoked a mining license for the Amulsar mine operated by Lydian International, due to the need to assess the operation's environmental impact. It is widely believed that the license will be returned after the elections, as so far, no abnormalities have surfaced and there might be a certain level of politicization around the whole situation. Potential investors would of course not view it positively if Lydian International assets were not seen to be treated impartially.

Stable Macroeconomic Situation

Growth is projected to be very strong in 2018, 6%, and to remain healthy next year at 4.8% (IMF forecasts), although larger projects tend to swing these figures quite a bit, due to the small size of the economy. If the political uncertainty recedes, the country could continue growing at a healthy pace of 4.5% thereafter. The sectors where Armenia's future might lie include IT (quality of human capital), jewellery production, tourism, mining, and agriculture, where 35% of the population still works.

Inflation is currently within the central bank target corridor (end of year forecast 3% and target 4+-1). The IMF forecasts inflation to stay within the target range, although move closer to the upper bound at 4.4% for the year 2019. The central bank refrained from tightening monetary policy in Q3 due to the political situation, but enters 2019 with a tightening bias. The central bank is seen as professional and inflation is currently not an issue.

The Armenian dram (AMD) has been stable in 2018, without direct central bank interventions since the revolution in the spring. Some seasonality persists due to the gas imports during the heating season. The dram is seen to be broadly in line with fundamentals and there is no shortage of foreign currency at the moment. The economy remains highly dollarized though, and especially FX-borrowing is worrying. Consumer and agricultural lending is, however, forbidden in foreign currency and FX-deposits are also coming down. The central bank will probably continue increasing FX-reserves and at the same time supporting the de-dollarization

The country has currently adequate reserves (five months of import cover) but might very well apply for a precautionary program from the IMF, at the earliest in Q1 2019. This would certainly also help the refinancing of the 2020 maturing Eurobond. The current account deficit is projected to be around 4% for this and the next year and considered to be sustainable for Armenia.

The government budget deficit looks promisingly low for 2018 as well and could end up being less than 2%. According to current estimates, it might grow a bit next year, but still be manageable at 2.3%. The IMF has conducted a fiscal transparency evaluation and results were reassuring; the coverage of statistics is good and no contingent liabilities

were found.

Also, Armenia has introduced a fiscal rule. There is a debt "break" when debt reaches 50% of GDP and a ceiling at 60%. Additionally, the growth of current expenditure cannot exceed the growth average during the last seven years and capex cannot be lower than the deficit. The below 50% debt to GDP-target is seen to be reached soon. There are also plans to increase the amount of local currency government debt to 20% from 15% of the total.

Rock and a Hard Place

No changes in Armenia's foreign policy are expected, but the new government will continue the pro-Russian strategy. This pragmatism stems from the hostile neighbourhood Armenia finds itself in, e.g. with the Turkish and Azerbaijani borders being closed. Russia is the guarantor of independence of Armenia, with two military bases and Russian forces guarding a large chunk of Armenia's borders. The government might make advances towards China and even the EU, but only as long as these are sanctioned by Russia. The conflict in Nagorno-Karabakh remains an extremely divisive issue in the region, and we do not expect a resolution in the near term, although the new Armenian government has indicated its willingness to de-escalate the conflict.

Our View

We continue to be positive towards Armenian credit risk and dollar-denominated debt and are ready to increase the duration of the investments if the country decides to refinance its 2020 maturing bonds in advance.

We are also positive on local currency investments in Armenia, where the allocation is currently made of currency derivatives and supranational AAA-rated issuers. The investments are supported by the positive real rates, stable currency, the tightening bias of the central bank and economic and political reforms in the country. We are currently in the process of starting to diversify the allocation into local government bonds.

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Georgia

Move Towards Parliamentary System

Presidential elections dominated discussion during our visit, and it will be a proxy war between the Georgian Dream coalition in the government (founded by billionaire Bidzina Ivanishvili) and opposition United National Movement (the party of currently exiled former president Mikheil Saakashvili). Georgia has moved towards a parliamentary system and the president is only a figurehead going forward, and we do not consider the election to have a significant market impact, but the election is still seen as a good forecast of the 2020 parliamentary elections.

The first round of the presidential elections was held on the 28th of October and nobody secured an absolute majority, meaning that a second round will be held on the 1st of December. The Georgian Dream backed, but formally independent candidate, former French ambassador to Georgia, Salome Zurbashvili, received 40% of the vote and the opposition UNM candidate, Grigol Vashadze, received 38%.

The campaigns are almost identical, with jobs, investments and a united Georgia in focus. The government's candidate will however have an advantage as civil servants and people on welfare might still be pressured to vote for the her. Also other worries that elections won't be fully legitimate exist. Much has been written internationally about the tensions between civil society and the government, but few experts in Georgia considered the severe or that that it will deteriorate.

“We do not consider the election to have a significant market impact, but the election is still seen as a good forecast of the 2020 parliamentary elections”

High Growth, Low Inflation

The economy is growing strongly, growth is projected at 5.5% this year and 4.8% in 2019. The current government has an increasing focus on inclusive growth and increasing the quality and availability of vocational training is a key focus. Wealth is still unequally distributed, as a large portion of the population is still either unemployed or farming at the subsistence level.

Tourism is one of the key areas where the country can really succeed. In 2018 there will already be twice as many tourists compared to the population, and tourism makes up almost a

fifth of GDP. Construction of a deep water port in Anaklia will also elevate economic activity for the following two decades.

The current account deficit is large, around 10% of GDP, but almost fully funded with “real” FDI (part of it is reinvested earnings). The people we talked to felt that imports would decrease if FDI were to decrease as well. Currently the FDI is still mostly in tourism and real estate though, and a diversification into agriculture and energy would be welcome.

Inflation decreased rapidly in early 2018 and is now close to the central bank target of 3% and seen to remain stable going forward. The central bank will continue normalising monetary policy, but with a moderate pace, especially due to the currency volatility in Russia and Turkey, two important trading partners.

The Georgian lari has appreciation potential in the long run, as the economy is growing at a faster pace, with a lower inflation, than its trading partners. There still seems to be some seasonality in the currency, although not everyone agrees on this. The main drivers for the seasonality would be tourist flows up until September and the heating period during winter. One expert we spoke to even joked that the lari seasonality can be deduced from the country's rivers, as the lari strengthens together with the flow of the rivers in the spring. Historically the lari starts appreciating in the first quarter.

Foreign exchange reserves are currently USD 3.2 billion (covering four months of imports) or 90% of the IMF reserve adequacy requirement, a metric based on among others short-term debt, the money supply and trade flows. The authorities will most likely continue to build reserves during appreciation pressures. They haven't sold any USD in the relatively volatile year of 2018, but bought USD 125 million in total.

The government is concerned about the rapid growth of credit to consumers and has tightened regulation. Requirements on loan to value and loan to income have been instituted, along with a ban on FX-lending under 200 000 lari which covers most private loans, including mortgages. The increase in lending has become a social problem, the share of problem loans is especially large in smaller loans. The IMF supports developing more prudent lending standards in its EFF-program for Georgia, ending in April 2020. The IMF reached a staff-level agreement on the third review of the programme on the 29th of October, remarking that “the reform program is advancing well, with most program targets for the third review met”. The IMF also lauded the government's fiscal prudence, expecting a deficit of only 2.3% of GDP at the end of the year. The government communicated that they have a strategy to reach an investment grade rating in the future.

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Seeking to Strengthen Ties to the West

The country is very pro-West as a whole, the goal is joining the EU, NATO and a free trade agreement with the USA. Especially the US has been forthcoming with military and economic assistance. Around 60% of the population are pro-Europe, especially now that Russia is occupying around 20% of the country. Russia is still said to increase its military capacity in South Ossetia and the border sometimes creeps further into Georgia. The Geneva talks on the breakaway regions are not progressing.

The economic relationship is still strong with Russia: large exports, Russians are the largest tourist group. The Georgian energy sector has managed to diversify from Russian gas thanks to the new pipeline from Azerbaijan. The current government has also been more pragmatic towards Russia than UNM. Economic growth in Russia is still an important driver for the Georgian economy, as much of exports are metals and ferroalloys to Russia and it is also an important source of remittances. Also, the wine import ban in Russia has been lifted, Russia having been the key export destination historically for Georgian wine.

The European Union has pushed for initiatives to improve the rule of law in the context of the Association Agreement, but for example the reforms on improving the independence and transparency of the judiciary has stalled a bit. Even though some reforms have stalled, and there is anecdotal evidence of worsening corruption on the governmental level, people still have a better chance in winning against the government in court and low-level corruption is not rife. The visa-free travel regime to the EU has been very popular and further lifted the pro-Western sentiment.

Other reforms that the country is working on include deposit insurance, reforming non-resident taxation on capital gains, new mutual funds law, SME-credit guarantee fund, new financial supervision regulation. All in all, the country is very entrepreneur friendly, with low taxes and little red tape. A new pension agency has also been established and it should receive around 300 million GEL in contributions yearly. These will be invested in Georgia in the beginning and the hope is that a new, large institutional investor will help develop local capital markets, which have been a bottleneck for attracting international investments.

Our View

We are positive on Georgian credit risk, but the pricing and duration of the Eurobonds is not attractive currently. We would be ready to invest in longer bonds were the country to issue new debt.

We are also very positive on local currency investments and participated recently in the local currency government debt auction for the first time. We will continue to increase the allocation in government debt and diversify from the current

currency derivatives and supranational AAA-rated instruments. The low inflation, high real rates and growth all support our positive view on lari-denominated investments.

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Azerbaijan

All about Oil and Gas

The economy is doing much better with current energy prices and production levels, and both the government budget and current account are predicted to end up with firm surpluses this year (+5% and +7% respectively).

Azerbaijan struggled with stubbornly high inflation in the aftermath of the commodity crisis of 2014 - 16, as the country eventually devalued the manat (AZN), which resulted in high import inflation. The situation has since stabilised, with inflation expectations of 3.5% for 2018 and 3.3% for 2019 by the IMF, well below the central bank target. The foreign currency shortage of those years has also subsided, the black-market price is equal to the official rate and the USD-backlog has disappeared according to officials. Officials forecast the economy to grow up to 2.0% this year and 3.6% next year, where the non-oil sector would take the lead.

Oil production is set to structurally fall in the long-term as shallow deposits are exhausted, but the outlook seemed more positive than two years ago. The main foreign investor in the energy sector, British Petrol, was clearly positive about their exploration prospects. They have been able to extract around 150 thousand barrels of condensate daily from their main gas asset Shah Deniz 2, increasing the profitability and the recently signed Production Sharing Agreement on the Azeri-Chirag-Gunashli field will facilitate further investments up to the year 2049. The first commercial gas to Turkey from Shah Deniz 2 has already been transferred this year through the Southern Gas Corridor and the expectation is that the pipeline will be ready to transfer gas to Italy in 2020, further improving government finances.

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Reforms in Non-Oil Economy Continue

The government is actively trying to accelerate the diversification of the economy through investments in port infrastructure coupled with a free economic zone. Customs and the tax departments have also been reformed and less bureaucracy should be expected going forward. Other planned reforms are the food safety agency, SME-agency and a credit guarantee fund. Also, many ministers have been replaced by a younger generation after the election this year. The reforms are relatively fast for Azerbaijan, but the government is unwilling to reform too quickly for fear of social instability. Tourism and the food industry still remain the most promising sectors of the future.

The non-oil sector would benefit from FDI and foreign know-how, which is lacking due to the monopolistic nature of the market. A few holding groups dominate the market and it seems that a consolidation in these is underway, as 3 - 4 of them have been merged with the bigger ones, leaving only 1 - 2 dominant players in the economy.

Oil Dependence Mitigated by Reserves and Fiscal Prudence

The government has passed a new budget law in 2018 and next year's budget will already follow these rules. The rule is based on three pillars; only a certain portion of net foreign financial assets can be spent (i.e. oil revenue), nominal consolidated spending cannot increase more than 3% yearly and the non-oil deficit has to go down every year. All of the three criteria have to be applied. The fiscal law also includes a borrowing and state guarantee cap going forward. The government is also planning tax incentives to reduce the size of the shadow economy. We consider especially the focus on the non-oil deficit to be positive, but worry at the same time about the growth effect of the 3% nominal increase cap. The IMF report on the state of the economy, i.e. Article IV, was not published last time, which points to some disagreement between the government and the multinational lender, causing some worry.

The currency regime is still a managed float and the rate has been practically constant throughout 2018. The double surpluses would point to appreciating pressures, but local experts feel that the government might not let the manat appreciate too much, especially with the weakening of the Turkish lira this year. The only seller of dollars in the system is still the government wealth fund, SOFAZ, but generally they satisfy the market demand for dollars. SOFAZ has reserves of USD 39 billion and the central bank has an additional USD 5.5 billion, the combined reserves equating to roughly the GDP of the country.

The banking sector has been partially cleaned up, but NPL's are still just below 20% of total loans and provisioning is also low, still hampering organic credit growth, which, however

has been picking up and is now 3% YoY. Banks are not allowed to grant FX-loans to borrowers that do not have FX-incomes. The interbank market is still in its infancy and the only source of liquidity is the central bank. The government is interested in increasing the liquidity of the market and will start issuing more government bonds in manat, with the aim of building a complete yield-curve. The exercise is not to cover the budget, but just to increase the efficiency of the interbank market. They are also engaging with Euroclear and Clearstream.

Our View

We remain positive on Azerbaijan's external debt, as the country is a net creditor, runs a budget surplus and doesn't have any financing needs in dollars. We are also positive on investments in local currency, due to the twin surplus, moderate inflation, the stability of the currency and high real rates. At the same time we acknowledge that the country is still in the phase of diversifying its economy and thus remains vulnerable to volatility in energy prices.

”Nominal consolidated spending cannot increase more than 3% yearly and the non-oil deficit has to go down every year”

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