Azerbaijan's economy grew by 2.1 percent yoy in March, supported by a rebound in the oil/gas sectors. The oil and gas sectors contracted by 6.9 percent yoy in March, improving from a 9.4 percent yoy contraction in February and reflecting a pick-up in production of both crude oil (condensate in particular) and natural gas (4 percent yoy growth). Year to March, the hydrocarbon sector declined by 7.3 percent yoy. Non-hydrocarbon sectors' output recorded a 5.9 percent yoy growth in March, marking the first month of yoy growth in a year. This was largely due to a low base effect as the first lockdown measures to contain COVID-19 were introduced in March 2020. In the year to March, the non-hydrocarbon sectors grew by 2.1 percent yoy, with construction (4.8 percent growth), transport (11.7 percent growth) and non-energy manufacturing (12.1 percent growth) rebounding strongly. Agriculture grew by 2.2 percent in the same period. On the demand side, investments grew by 5.8 percent yoy in March owing to a 7.4 percent increase in non-oil/gas sector investments, mostly in the private sector. High frequency indicators point to an uptick in consumption in March. For instance, compared to February, small payments rose by 20.4 percent month on month (mom), remittance inflow increased by 11.9 percent mom while transactions with payments cards were up 20.5 percent mom in March.

The third wave of the COVID-19 outbreak appears to have moderated in early May while vaccination advances. Infections had been increasing since early March, peaking in mid-April, and prompting reintroduction of some restrictions on economic activity and mobility. In response, new cases more than halved by early May compared to the April peak, prompting a slight loosening of restrictions, including re-opening of schools in major cities from May 17th. Despite restrictions, mobility in Baku has remained steady at close to 80 percent of pre-COVID levels. Vaccination efforts slowed in the second half of April but picked-up more recently. By May 10, about 10 percent of the population had received at least one dose of the COVID-19 vaccine. In addition to the Sinovac vaccine, Azerbaijan has begun to use the AstraZeneca vaccine for population aged 60+ and authorized the use of the Sputnik V vaccine.

Inflation stabilized in March, as the rise in food prices abated. Prices rose by 0.9 percent mom in March, keeping annual CPI inflation stable at 4.2 percent yoy and within the Central Bank of Azerbaijan's (CBA) target range of 4±2 percent. This was driven by a slowing food inflation, which grew by 1.8 percent mom in March, as compared to 21 percent mom in February, bringing annual food inflation to 4.7 percent. Services inflation was flat in March, as the effect of the January 2021 tariffs increase was exhausted. Non-food inflation also leveled off in March.

Foreign trade picked up. Merchandise imports increased by 8.1 percent yoy in March, recovering from a 23 percent yoy drop in February, in line with a pickup in domestic economic activity. Exports also grew sharply in March, by 41 percent yoy, driven by oil and gas exports reflecting higher energy prices. Non-hydrocarbon exports continued to perform well, expanding by 28.7 percent yoy in March, as compared to a 17.9 percent yoy growth in February, driven by higher cotton exports. Exports continued to exceed imports in March, bringing the year-to-March surplus to 14.4 percent of GDP.

The manat remained stable at 1.7 AZN/USD amid a rise in FX sales in April. The State Oil Fund of Azerbaijan (SOFAZ) sold USD 509.9 million of FX in April, which represented a 28.2 percent mom increase but was still 4 percent less yoy. CBA reserves remained at USD 6.37 billion by end-April. While SOFAZ's operating balance was positive in Q1-2021, its assets (USD 42.8 billion) declined by 2 percent since end-2020, driven by a fall in gold prices and depreciation of some currencies in the SOFAZ investment portfolio.

While the state budget was in deficit in March, both the state and consolidated budgets registered a surplus in Q1-2021. State budget revenues were down by 4.7 percent yoy in March and by 26.6 percent yoy in Q1-2021, reflecting an exceptionally high SOFAZ transfers a year earlier to meet surging FX demand in the early days of the pandemic and the oil price shock. In contrast, non-oil/gas revenues were 42 percent higher yoy in Q1-2021. State budget spending rose by 6.7 percent yoy in March and by 5.1 percent yoy in Q1-2021, reflecting increases in current spending (2.2 percent yoy) and capital spending (18.8 percent yoy). The state budget recorded a deficit of AZN 346.9 million in March, which brought the budget surplus down to 1.1 percent of GDP in Q1-2021, from a surplus of 4.7 percent of GDP at end-February. Robust SOFAZ revenues kept the consolidated budget in surplus in March.

Credit to economy continued to stagnate, despite a marginal pickup in March. Credit to economy grew by 0.7 percent in March, as compared to February, reflecting a slight pickup in consumer loans and mortgage lending while business loans remained flat. Despite this increase, credit was still 5.8 percent lower yoy in Q1-2021. Overdue loans leveled at 6.2 percent of the overall loan portfolio in March. Deposits grew by 1.4 percent mom in March, driven by a 3 percent mom increase in manat deposits while FX withdrawals moderated. Net profit of the banking sector was 10 percent lower yoy in Q1-2021.
**Figure 1. Economic recovery gained momentum in March.**

(ytd, %)

![GDP growth](source-state-statistics-committee)

**Figure 2. CPI inflation stabilized, led by food prices.**

(yoy, %)

![CPI](source-state-statistics-committee)

**Figure 3. Foreign trade picked up.**

(yoy, %) (ytd, % of GDP)

![Merchandise exports](source-state-customs-committee)

**Figure 4. CBA reserves were stable and SOFAZ FX sales increased by end-April.**

(USD billion) (USD billion)

![SOFAZ FX sales](source-central-bank-of-azerbaijan)

**Figure 5. State budget recorded a deficit in March, but remained in surplus in Q1-2021.**

(% of GDP) (% of GDP)

![Budget revenue](source-ministry-of-finance)

**Figure 6. Credit to economy rose slightly in March.**

(yoy, %)

![Total loan growth](source-central-bank-of-azerbaijan)

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