Azerbaijan’s economic recovery accelerated in April, led by non-energy sectors. Growth in non-energy sectors accelerated to 10 percent year on year in April, from 5.9 percent in March, largely reflecting the low base effect due to the pandemic-induced lockdown in April 2020. Year-to-April, the non-oil/gas sectors recorded 4.1 percent growth, with almost all sectors registering growth: particularly manufacturing (16.4 percent year to date) and construction (6.3 percent ytd), with a modest growth in agriculture (2.3 percent ytd) and in services such as ICT (3.8 percent yoy) and trade (0.1 percent ytd). Hospitality sector remained depressed, contracting by 32.8 percent ytd. The contraction in the energy sector deepened to 13 percent yoy in April, following a 6.9 percent yoy contraction in March, as OPEC+ production quotas constrained output. As a result, oil and gas sector output was down 8.8 percent in the year-to-April, dragging overall GDP growth down to a 0.2 percent contraction ytd. On the demand side, investment picked up by over 10 percent yoy in April. Private non-oil/gas investment led this increase, reflecting a more optimistic economic outlook. Consumption is also recovering according to high frequency banking indicators: compared to March, small payments increased by 9 percent month on month (mom) while remittances increased by 2.7 percent mom.

The recovery is likely to have continued in May, as COVID-19 restrictions were eased amid slowing infection spread and increasing vaccinations. Recorded COVID-19 cases moderated considerably in May, while COVID-19 vaccination picked up. By early June, about 13 percent of the population has received at least one dose of the vaccine. In response, mobility indicators remained strong while flight availability increased. On May 26, the Cabinet of Ministers issued a resolution paving the way for the next phase of economic reopening, including: i) ending mandatory mask wearing outdoors; ii) opening of Baku metro; and iii) resumption of inter-city public transport. Shopping malls, sport facilities, and beaches are also reopening, while “COVID-19 passports” will become mandatory when entering sport facilities and for staff working in the service sectors starting from July 1, 2021.

Inflation edged up in April but remained within the central bank’s target range of 4±2 percent. Annual inflation edged up to 4.4 percent in April, from 4.2 percent in March, reflecting a rise in non-food and services prices. Non-food (0.3 percent mom) and services inflation (0.2 percent mom) recorded an increase in April, as overall economic activity continued to recover. In contrast, food inflation moderated to 0.4 percent mom in April, from 1.8 percent mom a month earlier, aided by a seasonal decline in food prices.

Foreign trade continued to recover in April. Exports rose by 6.1 percent year on year in April, as energy exports increased by 2 percent year on year, due to higher oil prices even as export levels were stable. Non energy exports also recovered, almost doubling yoy in April, owing to a low base effect (as non-energy trade stalled in April 2020) as well as growth in cotton and gold exports. Imports grew strongly, by 34 percent year on year in April, as domestic demand picked up. Overall, increase in export outweighed that in import, resulting in a trade surplus of 34 percent of GDP in April and 19 percent of GDP in the year-to-April.

The manat remained stable at 1.7 AZN/USD while FX demand softened. During April and May, SOFAZ sold USD 822.6 million, which is 5 percent less than in the same period a year ago. Central Bank of Azerbaijan’s (CBA) reserves edged up by 1.5 percent mom in April and were around USD 6.5 billion. Separately, the CBA continued to scale back its liquidity mopping activities, slashing the amount of its issued notes by 23 percent by end May compared to end-April.

The fiscal position strengthened in April amid higher revenue collection and stable spending. The state budget balance turned to surplus as revenues surged by 42 percent yoy, owing to solid revenue collection and a higher SOFAZ transfer. All taxes, except VAT on imports, posted strong growth rates in April, as most of the tax exemptions for businesses to counter COVID-19 impacts expired. State budget expenditure in April was on par with that a year ago, as a rise in capital spending was offset by a decline in current spending. Overall budget balance recorded a surplus of AZN 494 million or 8 percent of GDP in April, driving the year-to-April surplus up to 2.8 percent of GDP. Strong SOFAZ revenues pushed the consolidated budget surplus to 9 percent of the GDP in the first four months of 2021.

Credit to economy started to recover in April. Credit increased by 1.8 percent mom in April, largely driven by growth in consumer lending which accounted for half of the increase. Despite this increase, the overall loan portfolio was still 1.1 percent smaller yoy in April. The share of overdue loans slightly declined to 6.1 percent of the overall portfolio in April, as compared to 6.2 percent in March. Deposits rose by 1.6 percent mom in April, driven by increased manat deposits. This reduced the dollarization rate to 54 percent in April from 55 percent in March. Profits in the overall banking sector declined mom due to higher provisioning, but were up yoy due to improved operating results.
Figure 1. Economic recovery picked up pace in April.

(ytd, %)

Source: State Statistics Committee

Figure 2. Inflation edged up in April, driven by non-food and services prices.

(yoy, %)

Source: State Statistics Committee

Figure 3. Trade surplus increased in April

(yoy, %)

Source: State Customs Committee

Figure 4. CBA reserves increased and SOFAZ FX sales softened in April.

(ytd, % of GDP)

Source: Central Bank of Azerbaijan

Figure 5. State budget returned to surplus in April

(% of GDP)

Source: Ministry of Finance

Figure 6. Banking sector started to recover in April.

(%)

Source: Central Bank of Azerbaijan

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