

- *The economy expanded by 4.6 percent (yoy) in 2022, driven by strong performance in the non-energy sectors.*
- *Inflation eased slightly in December but remained elevated at 14.3 percent by year-end. The CBA further raised the policy rate to curb inflationary pressures.*
- *The budget recorded a yearly surplus of 5.4 percent of GDP in 2022 despite a deficit in December, driven by strong revenue collection.*
- *The trade surplus was robust at 30 percent of GDP by end-December, supported by energy exports.*
- *Credit to economy slowed further in December.*

Growth increased to 3.3 percent (yoy) in December compared to 1.5 percent (yoy) in November. Energy sector growth contracted by 2.6 percent (yoy) in December, driven by a 6.9 percent (yoy) decline in oil production, which was partially offset by a 30.4 percent increase in natural gas production. The non-energy sector grew to 8.4 percent (yoy) in December from 4.5 percent (yoy) in November, driven by strong performance in services, e.g., transport (25.9 percent), ICT (11.3 percent), and retail trade (3.9 percent). The construction sector grew by 10 percent (yoy) in December due to a pick-up in public investment. On the demand side, investment edged down in December by 1.7 percent (yoy), driven by a 7.7 percent fall in non-energy investment, which was partly offset by higher public investment. High-frequency indicators point to strong consumption growth in December as small payments grew by 42 percent (mom) and credit card transactions increased by 17 percent (mom) while money transfers from abroad declined by 17.4 percent (mom). The economy grew by 4.6 percent (yoy) in 2022, with weak energy sector performance (2.6 percent contraction) offset by strong performance in non-energy sectors (9.1 percent, yoy), particularly in services.

Annual inflation eased but remained elevated at 14.3 percent in December compared to 15 percent in November. Food inflation rose to 1.7 percent (mom) in December from 1 percent (mom) in November. Non-food inflation increased by 0.5 percent (mom) in December compared to 1.6 percent (mom) in November.

In response to inflationary pressures, the Central Bank of Azerbaijan (CBA) continued to increase the policy rate. The CBA hiked the policy rate by 25 bps in early February, to 8.5 percent, citing significant uncertainties in the inflation outlook. The CBA increased the inflation forecast for 2023 to around 8 percent, which is above the inflation target.

The foreign trade surplus reached 30 percent of GDP as of end-2022, compared to 19.2 percent of GDP in

2021. Exports increased by 72 percent (yoy) in 2022, with energy exports increasing by 80 percent (yoy) due to higher energy prices. Non-energy exports also performed well, growing by 12.3 percent (yoy), with fertilizers, gold, and cotton the top exports. Imports increased by 24.2 percent (yoy) in 2022, driven by economic recovery and rising food prices, with machinery, food, and transport vehicles the top products. Supported by a healthy trade surplus and high remittance flows from Russia, the current account recorded a surplus of 30.7 percent of GDP in the first nine months of 2022. During this period, remittance flows from Russia rose to 3.9 percent of GDP compared to 1.1 percent a year ago; and the financial account recorded a 16.6 percent deficit, driven by capital repatriations by foreign energy companies.

The exchange rate remained unchanged at 1.7 AZN to the USD, with a notable increase in CBA reserves. CBA reserves increased by 12.8 percent (yoy) in December, reaching USD 9 billion, enabled by the increased FX supply due to strong remittance inflows. SOFAZ did not report a FX sale and cash FX operations edged down by 0.9 percent (mom) in December, pointing to low FX demand. SOFAZ assets grew by 8 percent (yoy) in Q4 of 2022 and reached USD 49 billion (62.3 percent of GDP). The increase in SOFAZ assets resulted from a 30 percent cut in SOFAZ transfers to the budget in Q4 of 2022.

The budget recorded a deficit of 3.3 percent of GDP in December, driven by high spending. Budget revenues fell by 55 percent (yoy) in nominal terms in December, as SOFAZ transfers had shrunk by 90 percent (yoy). Budget spending increased by 19.3 percent (yoy) in December, entirely driven by a 58.7 percent (yoy) increase in capital spending. On an annual basis, consolidated budget surplus picked up from 4.2 percent of GDP in 2021 to 5.4 percent of GDP in 2022, supported by strong growth in budget revenues (16.1 percent), driven by both non-energy revenues (18.8 percent) and energy revenues (13.6 percent). Budget spending rose by 17 percent (yoy) in 2022, due largely to a sharp rise in capital spending (45.3 percent). In line with the fiscal rule, the consolidated budget non-oil deficit fell to 23.7 percent of non-energy GDP in 2022, compared to 24.5 percent of GDP in 2021, driven by strong non-energy sector revenue performance.

Credit to economy edged down in December. The loan portfolio fell by 0.2 percent (mom), with business loans falling by 1.1 percent (mom) and consumer lending by 0.3 percent (mom). NPL ratio fell to 2.9 percent in December from 3.2 percent in November. The deposit portfolio grew by 2.2 percent (mom), supported by a 3.2 percent increase in local currency deposits. The dollarization rate edged down slightly to 48 percent by end-December compared to 49 percent in November.

Figure 1. Economic growth picked up in December

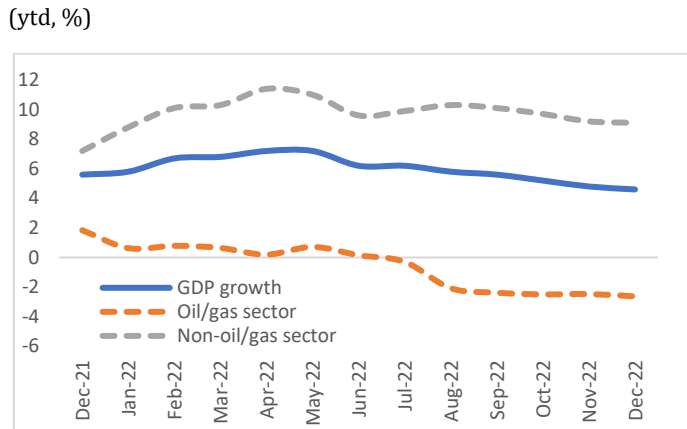


Figure 2. Inflation eased slightly in December, but remained elevated

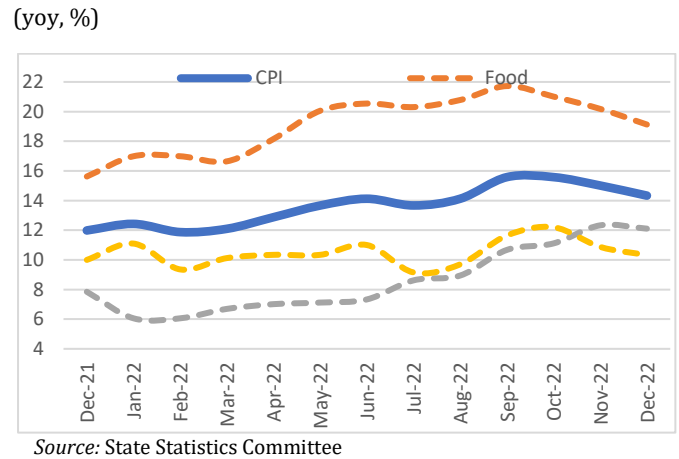


Figure 3. The trade surplus remained healthy in December

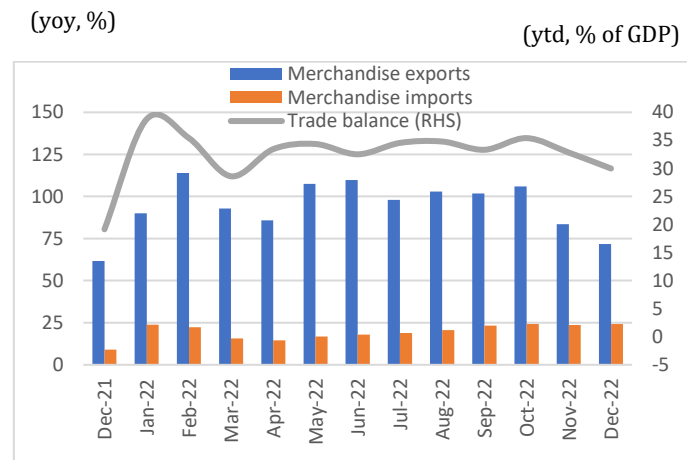


Figure 4. CBA reserves surged in December

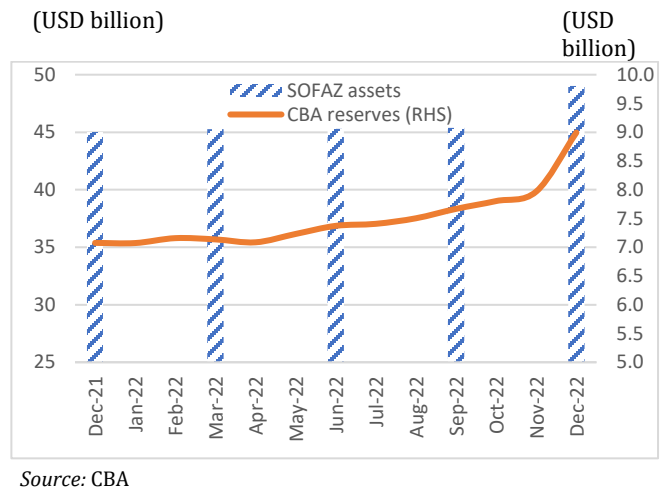


Figure 5. The state budget recorded a deficit in December

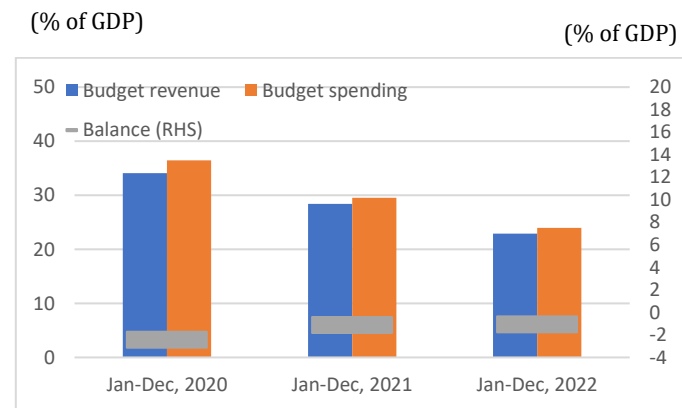


Figure 6. Credit growth slowed in December

