In April, the economy contracted by 0.8 percent (yoy), primarily due to a decline in non-energy sector output. The energy sector grew by 0.7 percent (yoy) in April, a slight improvement attributed to an increase in natural gas production and a deceleration in the decline of oil production. In contrast, the non-energy sector recorded a decline of 2.7 percent (yoy) in April. Growth in the non-energy sector was significantly hampered by a substantial decline in the construction sector (−43 percent yoy) and the transport sector (−15.1 percent yoy). The decline in the construction sector was primarily attributed to a decrease in public investment. However, there were positive developments in April, with growth in agriculture and retail picking up to 3.7 percent and 3 percent (yoy), respectively.

On the demand side, investment saw a sharp decline of 16.8 percent (yoy) in April. This drop was primarily driven by non-energy sector investment, which declined by 34 percent (yoy) as public investment was reduced. High-frequency indicators reflect a mixed performance in consumption: small payments increased by 4.4 percent (mom), while money transfers and payment card transactions experienced declines of 17 percent and 10 percent (mom), respectively.

Inflation continued to decelerate, reaching 12.9 percent (yoy) in April, primarily driven by a slowdown in food prices. CPI inflation rose by 0.3 percent (mom) in April, compared to the 0.7 percent (mom) increase recorded in March. This decline can be largely attributed to the moderation in food prices, which rose by only 0.3 percent (mom) in April, compared to a 1.3 percent (mom) increase in March. Agricultural PPI also declined by 0.3 percent (mom) in April from 0.5 percent (mom) in March, contributing to the moderation of food prices. By the end of April, annual food prices had eased to 15.1 percent. Non-food prices leveled at 0.3 percent (mom) growth, while service inflation saw a slight uptick to 0.4 percent (mom) in April.

The trade surplus widened in April as export growth picked up. Exports increased by 26.1 percent (yoy) in April, primarily driven by a 27 percent expansion in energy exports, propelled by natural gas. Non-energy exports rose by 15.4 percent (yoy) in April, with electricity, tomato, and polymers among key items. Import growth slowed to 13.9 percent (yoy) in April, compared to 44.4 percent (yoy) in March. The trade surplus in April reached 62.8 percent of GDP equivalent, while the cumulative surplus in the first four months of the year widened to 31 percent of GDP. The current account balance surplus in Q1 2023 amounted to 19 percent of GDP.

The exchange rate remained unchanged at 1.7 AZN/USD, amid a slowdown in FX demand. SOFAZ FX sales in April–May totaled USD 563.2 million, which was 33 percent lower than a year ago, pointing to lower FX demand. Central Bank of Azerbaijan (CBA) reserves leveled at USD 9.2 billion in April.

The fiscal balance recorded a surplus in April as spending growth slowed. Budget revenues increased by 5.3 percent (yoy) in April in nominal terms, supported by robust tax collection from the energy sector. Non-energy sector revenue declined by 3.3 percent (yoy). Budget spending declined by 7 percent (yoy) in April, driven by a fall in public capital spending, which dropped by 25 percent (yoy) in April, while current spending saw a moderate rise. Overall, the fiscal balance recorded a surplus of 3.8 percent of GDP in April, with the cumulative surplus in the first four months of the year reaching 8 percent of GDP.

The proposed amendment to the state budget points to additional fiscal expansion, primarily driven by increased capital spending. Budget revenues are expected to increase by 9.8 percent in 2023 compared to the originally budgeted amount, of which 52 percent will be collected from the non-energy sector. SOFAZ transfers are planned to increase by 4.1 percent in the revised budget. Budget spending is planned to increase by 9.6 percent compared to the originally budgeted amount. Current spending will be revised down by 3 percent, while capital spending will see an increase of 38.6 percent. Sixty percent of the increase in capital spending will be directed to the reconstruction of the liberated territories, and 30 percent (yoy) will be spent on defense-related projects. The budget deficit is expected to widen by 8 percent, reaching AZN 2.8 billion, or 2.5 percent of the 2023 GDP.

Credit to economy increased at a robust pace in April. The loan portfolio expanded by 1.6 percent (mom) in April, with consumer lending increasing by 2.1 percent (mom) and business loans growing by 1.2 percent (mom). The ratio of NPLs inched down to 2.8 percent in April. Deposits rose by 1.9 percent (mom), supported by a 2.5 percent (mom) increase in foreign currency deposits, while manat deposits increased by 1.4 percent (mom). The dollarization rate stabilized at 46 percent of deposits. Bank profits increased by 29 percent (mom) in April, in nominal terms, owing to a surge in interest income.

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Figure 1. Growth stalled in April, dragged by subdued non-energy sector activity (ytd, %)

Source: State Statistics Committee

Figure 2. Inflation moderated in April thanks to easing food prices (yoy, %)

Source: State Statistics Committee

Figure 3. The trade surplus widened in April, propelled by energy exports (yoy, %) (ytd, % of GDP)

Source: State Customs Committee

Figure 4. CBA reserves plateaued in April (USD billion) (USD billion)

Source: CBA

Figure 5. The state budget surplus increased in April (% of GDP)

Source: Ministry of Finance

Figure 6. Credit to economy remains robust (%) (yoy)

Source: CBA

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