Economic growth remained strong in December led by the non-energy sectors. The economy grew by 8 percent year on year (yoy) in December. Energy sector contracted by 5.5 percent yoy in December, while non-energy sectors continued to grow robustly by 13.6 percent yoy as compared to 11.3 percent yoy growth in November. This growth was driven by services, such as transportation (40.1 percent yoy, growth), hospitality (134.4 percent yoy growth), retail trade (8.7 percent yoy growth), ICT (9.4 percent yoy growth), and construction (10.2 percent yoy growth). In contrast, agriculture continued to contract in December (by 5.6 percent yoy). On the demand side, investment rose by 17.8 percent yoy in December, driven by a pickup in non-energy investment by 5 percent yoy, particularly public investment. Consumption was robust in December, as illustrated by data on debit and credit card transactions (16.6 growth month on month (mom) and 37.8 percent yoy growth in 2021).

Azerbaijan’s economy grew by 5.6 percent yoy in 2021 with output recovering to pre-COVID levels. The energy sector grew by 1.8 percent yoy, with output constrained by OPEC+ quotas for large parts of the year, while non-energy sectors growth was more robust at 7.2 percent yoy, led by services and manufacturing. On the demand side, consumption recovery was robust while investment declined by 7.3 percent yoy in 2021, with a 9.6 percent yoy drop in non-energy sector investment.

Recorded COVID-19 cases picked up sharply since late January as the country was hit by the Omicron wave. Daily cases rose to record numbers in early February, with over 6,000 documented daily infections, 50 percent more than the peak during the Delta wave. Vaccination has been driven by “booster” shots since January. By early February, 47 percent of the population had received two doses of the vaccine while 21.3 percent received the third dose.

Inflation continued to rise in December. CPI inflation rose by 1.6 percent mom in December, driven by a 2.6-percent mom increase in food prices. Annual food price inflation increased to 15.6 percent yoy in December from 14.7 percent yoy in November. Services prices growth slowed to 0.9 percent mom in December from 1.6 percent mom growth in November. As a result, annual CPI reached 12 percent by end-2021.

Responding to rising inflation, the Central Bank of Azerbaijan (CBA) raised the policy rate in January. On January 28th, the CBA raised the policy rate from 7.25 percent to 7.5 percent citing rising inflationary pressures from external and domestic sources. The CBA expects inflation to return to the target range of 4±2 percent by 2023. The CBA also stepped-up liquidity absorption operations.

Trade surplus moderated slightly in December. Exports more than tripled yoy in December. Oil and gas exports increased four-fold yoy in December due to a low base effect and increased energy prices. Non-energy exports grew by 57.8 percent yoy in December. Imports also picked up, by 24 percent yoy in December, propelled by a strong recovery in domestic demand. With slightly lower exports, the trade surplus narrowed in December and stood at 19.2 percent of GDP in 2021.

The manat remained stable at 1.7 AZN per USD, while FX demand rose in January. State Oil Fund (SOFAZ) sold USD 727 million in January (12.7 percent yoy increase). CBA reserves remained flat at USD 7.07 billion in January while SOFAZ assets amounted to USD 45 billion in 2021, which is 3.4 percent higher than in 2020.

The state budget recorded a deficit by end-2021 but overall fiscal balance was in surplus. Budget revenues increased by 50.5 percent yoy in December, driven by higher SOFAZ transfers, surging non-oil/gas revenues (53.6 percent yoy) due to increased non-tax revenues such as transfers from the Public Debt Guarantee Fund and CBA profit, and increase in tax revenues (11.6 percent yoy). Budget spending rose by 19.1 percent yoy in December, with current spending up by 21.5 percent yoy and capital spending up by 17.2 percent yoy. Cumulatively, in 2021, budget revenues increased by 7 percent yoy and budget spending by 3.8 percent yoy. As a result, the state budget recorded a deficit of 1.1 percent of GDP in 2021. However, the consolidated budget recorded a surplus of 4.2 percent of GDP, driven by high SOFAZ revenues.

Credit to economy expanded further by end-2021. Loan portfolio expanded by 2.5 percent mom in December, bringing its annual growth to 17.8 percent. Both mortgage loans and consumer loans surged in December, by 37.7 percent and 79.8 percent mom respectively, while business loans rose by 23 percent mom. Deposit portfolio expanded by 8.3 percent mom and by 22.7 percent yoy in December, with manat deposits up by 4.2 percent yoy and FX deposits by 7.5 percent yoy. As a result, the dollarization rate fell to 49 percent by-end 2021. Bank profits grew by 7.3 percent yoy in 2021.

Global oil prices soared in January. By early February 2022, Brent oil price futures reached 90 USD/bbl, the highest level since 2014. Azerbaijan’s OPEC+ crude oil production quota was up to 668,000 bbl/day in February 2022, higher than the current production capacity. The budget for 2022 is based on an oil price of 50 USD/bbl.
Figure 1. Economic growth remained strong in December. (ytd, %)

Source: State Statistics Committee

Figure 2. Inflation continued to rise in December. (yoy, %)

Source: State Statistics Committee

Figure 3. Trade surplus moderated slightly in December. (yoy, %)

Source: State Customs Committee

Figure 4. CBA reserves and SOFAZ assets increased by end-2021. (USD billion)

Source: Central Bank of Azerbaijan

Figure 5. State budget recorded a deficit in December. (% of GDP)

Source: Ministry of Finance

Figure 6. Credit to economy soared by end-2021. (%)

Source: Central Bank of Azerbaijan