The economy contracted by 1.5 percent (yoy) in January 2023, compared with a 3.3 percent (yoy) growth in December 2022. The energy sector contracted by 4.7 percent (yoy) in January, driven by a 6.9 percent (yoy) decline in oil production. Non-energy sector growth slowed considerably, from 8.4 percent (yoy) in December to 1.7 percent (yoy) in January. This was driven by a contraction in non-energy manufacturing (1.2 percent, yoy) and in transportation (18.8 percent, yoy). On the other hand, growth was relatively healthy in agriculture (3.3 percent, yoy), in construction (28.1 percent, yoy), and in ICT (17.2 percent, yoy). On the demand side, growth was largely sustained by investment, which increased by 61.2 percent (yoy), driven by a 150 percent (yoy) increase in investment in the non-energy sector. This, in turn, was driven by a 540 percent (yoy) increase in public investment in January. High-frequency indicators point to a slowdown in consumption in January, which is typical at the beginning of the year. For example, small payments declined by 33 percent month-on-month (mom), money transfers fell by 39 percent (mom), and credit card transactions contracted by 20 percent (mom).

Inflation fell marginally, from 14.3 percent in December to 13.7 percent in January, but remained elevated. CPI inflation rose by 1 percent (mom) in January, on par with the inflation recorded in December. Food prices increased by 1.2 percent (mom), down marginally from 1.7 percent (mom) recorded in December. Annual food price increases slowed from 19.1 percent in December to 17.5 percent in January. Non-food and services inflation rose by 1.1 percent (mom) and 0.5 percent (mom) respectively in January. The agriculture producer price index increased by 2.9 percent (mom) in January, compared to 1.1 percent (mom) in December, suggesting that cost factors for food inflation are still significant.

The trade surplus fell sharply in January, to an estimated 8 percent of GDP, down from 30 percent of GDP as of end-December. Exports fell by 39 percent (yoy) in nominal terms, driven by a 42 percent (yoy) decline in energy exports. This reflects a decline in crude oil production and exports, but also delays by customs in reporting natural gas exports. In January, the volume of natural gas exports reported by customs was 8.6 times lower than that reported by the Ministry of Energy. Non-energy exports increased 22.6 percent (yoy) in January. The top three exported items included electricity, cotton, and hazelnuts, and the main export destinations for non-energy exports were Turkey, Russia, and Georgia. Imports increased 45 percent (yoy) in January, with the top three imported items being transport vehicles, machinery, and metals, and the main source countries being Russia, France, and China.

The exchange rate remained unchanged at 1.7 AZN/USD amid low demand for foreign exchange (FX). In January, SOFAZ sold USD 356.6 million in the FX market, which represented a 50 percent (yoy) decline. Cash FX sales fell by 27 percent (yoy), also pointing to weak demand for foreign currency. The real effective exchange rate appreciated by 6.9 percent (yoy) in January. CBA reserves increased slightly, by 0.5 percent (yoy) in January, to reach USD 9 billion, or 5.4 months of imports.

The state budget recorded a large surplus of 26.3 percent of GDP in January, due to strong revenue collection in the energy sector. State budget revenues increased by 45.8 percent (yoy) in January in nominal terms. Energy sector revenues increased by 72 percent (yoy) in January as energy companies operating under Production Sharing Agreements (PSAs) paid their Q4, 2022 corporate income tax in January 2023 as is standard. Non-energy sector revenues also picked up by 19.2 percent (yoy) in January. Budget spending increased by 48.3 percent (yoy) in January, propelled by high public investment. Current spending fell marginally by 0.01 percent (yoy) in January.

Credit to economy edged up in January. The bank loan portfolio increased by 0.5 percent (mom) in January and was 17.5 percent higher on yoy basis. This was driven by a 1 percent (mom) increase in consumer lending, while business loans decreased 0.1 percent (mom). The NPL ratio remained at 2.9 percent in January. The deposit portfolio declined by 1.9 percent (mom) in January, driven by a 2.7 percent (mom) decline in corporate deposits, offsetting a 1.6 percent (mom) increase in household deposits. Non-residents’ deposits increased markedly in 2022 and, by January 2023, reached 9.8 percent of total household deposits, up from 3 percent in January 2022. The dollarization rate increased slightly, from 48 percent at end-December to 49 percent in January.
The economy contracted in January (ytd, %)

Source: State Statistics Committee

Inflation moderated but remained elevated (yoy, %)

Source: State Statistics Committee

The trade balance became negative as exports declined sharply (yoy, %)

Source: State Customs Committee

CBA reserves rose slightly in January (USD billion)

Source: CBA

The state budget recorded a large surplus (% of GDP)

Source: Ministry of Finance

Credit growth stabilized in January (%)

Source: CBA