

Azerbaijan Economy in Q3

Agriculture & manufacturing accounts for half of the non-oil economic growth:

- In Jan-Sep of 2019, the economy has expanded by 2.5%, including the oil sector, which grew by 1.1% thanks to 29.3% expansion in gas production. Production of crude oil was 2.8% down compared to the same period of the previous year, as BP suspended oil production from the Central Azeri (CA) facility on April 15 for about two weeks to carry out planned maintenance and inspection;
- Coming to the non-oil GDP, it increased by 3.5% and accounted for 61% of the total GDP. Growth in the non-oil sector is 4.1% (2018, Jan-Sep: 3.1%) if the construction stripped out, where the latter has contracted by 5.6% y-o-y. Compared to the corresponding period of 2018, the construction sector experiences the relatively shallower contraction (2018, Jan-Sep: 15.9%);
- The relative acceleration in the non-oil sector is driven by the agriculture and manufacturing sectors, which constitute 20% and 34% of the non-oil sector growth, respectively.

Inflation is within a target band with a limited acceleration in food inflation:

- The prices increased by 0.3% in September and average annual inflation stood at 2.6%. It was close to the lower bound of the Central Bank 'target' range of 4% ($\pm 2\%$) for 2019;
- If decomposed into the consumer basket, food prices went up by 3.5%, non-food prices 1.3%, and services by 2.4% YoY. The contribution of food, non-food products, and services to the headline inflation made 1.5, 0.3, and 0.8 percentage points (total 2.6%), respectively;
- Prices of 74% of the products (385 out of 520) included in the consumer basket have increased on a YoY basis, 17% have decreased, and 9% have remained unchanged. Price increase of 54% (209) of goods is less than headline inflation of 2.6%;
- Total import prices have increased by 4.9% YoY in September and have put upward pressure on the headline inflation. International food prices have gone up by 3.3% YoY (5.3% YTD), which contributed to food inflation.

Double-digit growth in import continues:

- During the Jan-Sep period of 2019, the total export expanded by 4.1%, and import by 31.3%; ultimately, the trade surplus decreased by 29.5% and accounted for \$4488 mln. or 13.1% of total GDP;
- It is worth to underline that nearly a fifth of overall import is due to one product group*, the total import growth is equal to 10.9% if the mentioned group stripped out;
- The fact that car import has risen by 2.1 times and made 33894 during the reporting period is an example of relative expansion in consumption appetite. \$490.3 mln. was spent on car import (4.7% of total import), of which \$380.6 mln. corresponds to the passenger vehicle import (27825 units);
- During the analyzed period, the non-oil export has performed 17% growth YoY, amounting to \$1413 mln. A quarter of the entire growth in non-oil export is explained by an expansion in unprocessed fruit, 14% by cotton, 27% by plastics-polymer, 14% by unwrought gold, and the rest mainly by other products. Top five non-oil export products were tomato, unwrought gold, cotton fiber, hazelnuts, and electricity, which constituted nearly a third of the entire non-oil export;
- Trade surplus contributed to the CBAR reserves, as of the 30th of September, the CBAR reserve was USD 6034.1 mln. which is 9% or USD 500 mln. higher compared to the same period of 2018;
- The assets of SOFAZ, as of September 30, 2019, increased by 10.4% compared to the beginning of 2019 (USD 38515.2 mln.) and stood at USD 42524.4 mln. or 88% of total GDP.

*Note: Semi manufactured gold - natural or cultured pearls, precious or semiprecious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewelry; coin – HS code 71; This is the gold import of State Oil Fund of Azerbaijan.

Unbalanced trend persists: weak growth on corporate loans and stronger one on the consumer side:

- For the January-September period, the total assets of the banking sector increased by 7.4% YoY (6.3% YTD) making AZN 31.4 bln. Coming to the gross loan portfolio, it has expanded by 15.8% YoY and accounted for AZN 14.2 bln. As of the 30th of September, 4 out of 30 banks operating in Azerbaijan have loan portfolio > AZN 1 bln. The credit portfolio of one bank is between AZN 500 mln. and 1 bln., the size of the portfolio of 21 banks ranges from 100-500 mln., the portfolio of two banks is between 10-100 mln., and of 2 banks is less than AZN 10 mln.;
- In YoY terms, the corporate loan portfolio grew by 18.3%, mainly driven by loans to trade (31% of the growth), power engineering & chemicals (24%), and industry (19%) sectors. Loans to households increased by 24.6%, including 37.4% rise in consumer loans;
- NPL has seen AZN 305.8 mln decrease in absolute terms, as for September of 2019 the ratio was 10.1% for the overall portfolio which is 4.1 p.p. down (2.0 p.p. down YTD) compared to the same month of the previous year;
- Deposit base has experienced a growth rate of 8.6% YoY and made AZN 23.4 bln. By type, the total demand deposits have seen an increase at the rate of 9.6%, while time deposits have gone up by 7.4% YoY, amounting to AZN 11.1 bln. It is worth to mention that the main driver of the total deposit base growth was an increase in time deposits of non-financial corporations (NFCs) in FC, which consists of 48% of the total growth. Demand deposits of NFCs in NC comprise 31% of the total growth. The main reason for this is the ongoing “whitening” process in the non-oil economy;
- Return on equity of the whole banking sector was 11.1% (2018, Sep.: 4.2%), calculated as the ratio of total profit to the end of September equity;
- The number of banking sector staff has increased by 10.8% (2018, Sep.: 4.4%), which could be an indication of relative improvement in confidence and expectations of the sector.

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