

## Azerbaijan Economy in Q2

### **Agriculture pushes the economic growth up, while construction drags it down:**

- In January-July 2019, the economy has expanded by 2.5%, including the oil sector, which grew by 1.9% thanks to 34% expansion in gas production. Production of crude oil was 2.5% 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 maintenance and inspection;
- Coming to the non-oil GDP, it increased by 3% and accounted for 59.2% of the total GDP. Growth in the non-oil sector is 4.1% (2018, Jan-July: 3.5%) **if the construction stripped out**, where the latter has contracted by 9.1% y-o-y;
- The relative acceleration in the non-oil sector is driven by the manufacturing, agriculture, and trade sectors, which constitute 40%, 20%, and 17% of the non-oil sector growth, respectively.

### **Inflation is within a target band with a limited acceleration:**

- The prices increased by 0.1% in July and average annual inflation stood at 2.7%. 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 3.1%, non-food prices 1.3%, and services by 3.0% y-o-y. Moreover, the contribution of food, non-food products, and services to the headline inflation made 1.4, 0.3, and 1.0 percentage points (total 2.7%), respectively;
- The producer prices in the manufacturing and agricultural sectors increased by 8.6% and 2.7% y-o-y, respectively, which illustrates that the pressure through the cost channel of the inflation exists.

**Import keeps double-digit growth:**

- In January-July 2019, the total export expanded by 14%, and import by 46%; ultimately, the surplus decreased by 23% and accounted for \$3834 mln. or 8.6% of total GDP;
- It is worth to underline that nearly a ¼ of overall import is due to one product group\*, the total import growth is equal to 13.2% if the mentioned group stripped out;
- The fact that car import has risen twice and made 22974 during the reporting period is a clear example of expansion in consumption appetite. Rising consumer confidence is also recorded in other consumer durables, for instance, in air conditioners, or furniture, which y-o-y basis have increased by 1.9x and 11.9% respectively;
- During the analyzed period, the non-oil export has performed 17% growth y-o-y, amounting to \$1133 mln. 27% of the entire growth in non-oil export is explained by an expansion in unprocessed fruit & vegetables, 26% by cotton, 24% by plastics-polymer, and the rest mainly by metals and other products.

**\*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.

**A sluggish growth on corporate loans and a stronger one on the consumer side:**

- As of 30<sup>th</sup> of June, total assets of the banking sector increased by 7.1% y-o-y making AZN 30 bln. Coming to loan portfolio, it has expanded by 11.4% y-o-y and accounted for AZN 13.5 bln.;
- In y-o-y terms, the corporate loan portfolio grew by 11.9%, and loans to households increased by 20.3%, including a 32.8% rise in consumer loans;
- NPL has seen AZN 259.3 mln decrease in absolute terms, as for June of 2019 the ratio was 11% for the overall portfolio which is 3.4 p.p. down (1.1 p.p. down YTD) compared to the same month of the previous year;
- Deposit base has experienced a growth rate of 8.3% y-o-y and made AZN 22.1 bln. By type, the total demand deposits have seen a substantial increase at the rate of 16.4%, while time deposits have risen by 0.4% y-o-y, amounting to AZN 10.4 bln. It is worth to mention that the main driver of the total deposit base growth was an increase in demand deposits of non-financial corporations in NC, which consists of 65% 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 9.4% (2018, June: 0.9%), calculated as the ratio of total profit to the end of June equity.
- The number of banking sector staff has increased by 9.3% (2018, June: 4.0%), which could be an indication of improvement in confidence and expectations of the sector.

**The change to the Tax Code continue to weigh on life insurance and consequently on the total market:**

- As of 30<sup>th</sup> of June, total insurance premiums decreased by 8.8% and accounted for AZN 361.3 mln. The net premiums (premiums minus claims) has experienced a 12.6% decline and accounted for 1.1% of the non-oil GDP (2018, H1: 1.3%);
- Based on the market segment analysis, total life insurance (LI) premiums have shrunk by 24.9% and made AZN 135.4 mln. The share of LI premiums in total premiums of the market declined by 8 p.p. and comprised 37.5%;
- Voluntary LI premiums decreased by 30.8% and made 110 mln. The share of VLI in total LI premiums has gone down from 88.2% to 81.2% comparing to the same period of the previous year;
- Premiums of non-life insurance (NLI) have experienced a 4.5% rise, and 5.0% if premiums of the state compulsory personal insurance for military servants, judicial, and law enforcement officers excluded. The share of NLI in total premiums has increased by 8 p.p. to 62.5%;
- Claims to premiums ratio of the life insurance market was 30.6%, while this ratio of the non-life insurance market was 34.4%.

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