

Azerbaijan Economy in 2019

2019 ended with 3.5% non-oil growth driven by manufacturing & agriculture

- In 2019, the economy has expanded by 2.2%, including the oil sector, which grew by 0.4% thanks to 27.7% expansion in gas production. Production of crude oil was 3.3% down compared to the previous year, as BP took production offline at the Central Azeri & West Chirag platforms in April and October, respectively, as part of a maintenance and inspection program.
- Coming to the non-oil GDP, it increased by 3.5% and accounted for 62% of the total GDP. Growth in the non-oil sector is 4.3% (2018: 3.2%) if the construction stripped out, where the latter has contracted by 6.1% YoY. Compared to the corresponding period of 2018, the construction sector experiences the relatively shallower contraction (2018: -9%).
- The relative acceleration in the non-oil sector (4.3% versus 3.2%) is driven by the manufacturing, agriculture, and trade sectors, which constitute 31%, 19% and 17% of the non-oil sector growth, respectively.

Lower inflation was achieved in 2019

- Average annual inflation stood at 2.6%, which was lower than the target band center - 4% ($\pm 2\%$) of the Central Bank for 2019.
- If decomposed into the consumer basket, food prices went up by 3.8%, non-food prices 1.2% and services by 2%. The contribution of food, non-food products, and services to the headline inflation made 1.6, 0.3, and 0.7 percentage points (total 2.6%), respectively.
- Prices of 74% of the products & services (386 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 59% (226) of items is less than headline inflation of 2.6%.
- In general, revived consumption and high global food prices had an upward, while a stable exchange rate, the monetary condition, the dynamics of administrative prices, and low inflation expectations had a stabilizing effect on inflation in 2019.

2019 ended with 8.4% growth of goods import

- In 2019, the total export expanded by 0.9%, and import by 19.2%; ultimately, the surplus decreased by 25.3% and accounted for \$5968 mln. or 12.4% of total GDP.
- It is worth to underline that nearly 16% of overall import is due to one product group*, the total import growth is equal to 8.4% if the mentioned group stripped out.
- The fact that car import has risen by 1.7 times and made 47710 units in 2019 is a clear example of relative expansion in consumption appetite. Rising average monthly salary (15%) and consumer loans (43%) has triggered an increase in food (YoY 13%) and semi-durable & durable consumptions goods (YoY 10%) import.
- During the analyzed period, the non-oil export has performed 15.7% growth YoY, amounting to \$1954 mln. 22% of the entire growth in non-oil export is explained by an expansion in unprocessed fruit, 23% by plastics-polymer, 19% by cotton, 21% by unwrought gold, and the rest mainly by other products. Top five non-oil export products were tomato, unwrought gold, hazelnuts, cotton fiber, and persimmon, which constituted about one-third of the entire non-oil export.
- Trade surplus contributed to the CBAR reserves, as of the end of 2019, the CBAR reserve was USD 6258.0 mln. which is 11.2% or USD 632 mln. higher compared to 2018.
- The assets of SOFAZ, as of the end of 2019, increased by 12.5% compared to the beginning of 2019 (USD 38515.2 mln.) and stood at USD 43323.3 mln. or 90% 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.*

2019 ended with an unbalanced trend: weaker growth on corporate loans and stronger one on the consumer side

- In 2019, the total assets of the banking sector increased by 11% YoY making AZN 32.7 bln. Coming to the gross loan portfolio, it has expanded by 17.5% YoY and accounted for AZN 15.3 bln.
- The corporate loan portfolio grew by 15.2% in YoY terms, mainly driven by loans to power engineering & chemicals (22% of the growth), industry (18%) and trade & services (12%) sectors. Loans to households increased by 31.2%, including 45.3% rise in consumer loans.
- NPL has seen 19.7% YoY decrease or AZN 312 mln in absolute terms. This decline is mainly driven by a contraction in overdue loans in the FX portfolio (77% of the decrease), which is primarily related to the government's NPL resolution program payments to banks and households. The total NPL ratio stood at 8.3% which is 3.9 p.p. down compared to 2018.
- Deposit base has experienced a growth rate of 13.1% YoY and made AZN 24.7 bln. By type, the total demand deposits have seen an increase at the rate of 12.6%, while time deposits have gone up by 13.9% YoY, amounting to AZN 11.2 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 40% of the total growth. Demand deposits of NFCs in NC comprise 32% of the total growth. The main reason for this is the ongoing "whitening" process in the non-oil economy. Additionally, 9% of the total growth comes from households' deposits driven by NC deposits.
- The dollarization rate of the total deposit portfolio stood at 61% abating by 4 p.p. compared to 2018, mostly moved by households' deposits which decreased from 62% to 52%.
- Return on equity of the whole banking sector was 11.7% (2018: 6.9%), calculated as the ratio of total net profit to the end of December equity.
- The number of banking sector staff has increased by 11.7% (2018: 7.7%), which could be an indication of relative improvement in confidence and expectations of the sector.

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