

Azerbaijan Economy in Q1

Due to pandemic, the non-oil economy decelerated by half:

- The overall economy expanded by 1.1% while the oil sector fell by 2.1%. Production of crude oil was 3.9% down compared to the previous year. This effect is partly offset by 15.3% increase in gas production;
- Coming to the non-oil GDP, it increased by 3.5% and accounted for 63% of the total GDP. Growth in the non-oil sector is 5.3% if the construction stripped out, where the latter has contracted by 13.4% YoY. Although the share of the construction sector in the economy decreased, investments in the sector rose by 4.5%. Tourism sector experienced a 14% downfall constraining non-oil GDP growth;
- The increase in the non-oil sector is driven by manufacturing, transportation and storage, and ICT sectors, which constitute 47%, 24%, and 15% of the non-oil sector growth, respectively.

Food and medical products drove inflation amid COVID-19 induced demand:

- The price level increased by 1% in March and annual inflation stood at 3.3% (3% if the first quarter is compared to the same period of the previous year). It was lower than Central Bank's target band (2%-6%) center 4%;
- Prices of 77% of the products & services (400 out of 520) included in the consumer basket have increased on a YoY basis, 14% have decreased, and 9% have remained unchanged. Price increase of 73% (291) of items is less than headline annual inflation of 3.3% implying that the prices of some items experienced large increases;
- If decomposed into the consumer basket, food prices went up by 6%, non-food prices 1.2%, and services by 1.2% YoY. The contribution of food, non-food products, and services to the annual headline inflation made 2.6, 0.3, and 0.4 percentage points (total 3.3%), respectively;
- In general, high global food prices and logistical constraints had an upward, while a stable exchange rate and the dynamics of administrative prices had a stabilizing effect on inflation, while the COVID-19 & national lockdown adds huge uncertainty.

Despite partial coverage of lockdown in March, consumer goods import was down:

- In Jan-Mar 2020, total exports decreased by 6.2%, and imports* increased by 7.6%; ultimately, trade surplus* decreased by 22.9% and accounted for \$1570 mln. or 14.6% of total GDP;
- The main contributors to import growth were ferrous metal and its products, automobiles and pharmaceutical goods:
 - Imports of ferrous metal and its products grew by 35.5% contributing to 41% of total import growth. This may be a sign of higher demand for raw materials in non-oil industrial production as its output increased by 23% in the first quarter;
 - In real terms, car imports almost doubled and amounted to 15492 units during the Jan-Mar period. In value terms, it increased by 1.6 times constituting one-third of total import growth and amounted to \$169.6 mln;
 - Imports of pharmaceutical products expanded by 52% and made 15% of the total import growth reflecting higher demand for medicines due to the COVID-19 pandemic. Chemicals imports rose by 7.6% constituting one-tenth of the total import growth.
- During the analyzed period, the non-oil export has performed 3.3% growth YoY, amounting to \$429 mln.;
- Trade surplus contributed to the CBAR reserves, as of the end of March, the CBAR reserve was USD 6393.8 mln. which is 10.6% or USD 615.2 mln. higher compared to the same period of 2019;
- The assets of SOFAZ, as of the end of March, increased by 2.7% compared to the contemporaneous period of 2019 (USD 40273.3 mln.) and stood at USD 41349.5 mln. or 87% of total GDP.

Note: excluding semi-manufactured gold – HS code 71, which is the gold import of State Oil Fund of Azerbaijan.

Banking sector received hit as external shocks mount uncertainty:

- In March 2020, the total assets of the banking sector increased by 7.9% YoY making 32.2 bln. AZN. Coming to the gross loan portfolio, it has expanded by 19.8% YoY and accounted for 15.6 bln. AZN. The persistent monthly growth of loans – 2% on average in the last three quarters ended, decreasing by 0.4%. These negative monthly trends show the initial constraining effect of the lockdown on the financial sector due to COVID-19;
- The corporate loan portfolio grew by 20.1% in YoY terms, mainly driven by loans to industry (31% of the growth), trade & services (16%), and power engineering & chemicals (15%) sectors. Loan portfolio of state banks that rose by 23.9% YoY was the main source for the growth in corporate loans;
- Loans to households increased by 28.1%, including 37.4% rise in consumer loans. Compared to March 2019, the share of consumer loans in the total loan portfolio (excluding total NPL) rose by 3.3 p.p. to 30%, approaching pre-devaluations level (2014: 33%). Mortgages increased by 8.8% YoY, doubling its March 2019 growth rate;
- NPL has seen 11% YoY decrease or 171 mln. AZN in absolute terms compared to March 2019. The total NPL ratio stood at 8.9% that is 3.1 p.p. YoY fall;
- The deposit base has experienced a growth rate of 8.9% YoY and made 24.1 bln. AZN. By type, the total demand deposits have seen an increase at the rate of 8.2%, while time deposits have gone up by 9.7% YoY, amounting to AZN 11 bln.;
- The dollarization rate of the total deposit portfolio stood at 62.4% abating by 3.7 p.p. compared to March 2019, mostly moved by households' deposits that decreased from 60.5% to 55.1%. The dollarization rate for NFCs fell by 3.7%, while FCs' deposits experienced a 1.6% dollarization decrease compared to March 2019;
- Return on equity of the banking sector was 13.8% (2019, March: 11.5%), calculated as the ratio of total net profit to the end of March equity. Interest income increased by 3.9%, while non-interest income rose by 20%. The high growth in non-interest income is mainly related to dealing income resulted from 63% higher than expected transfers to the budget by SOFAZ.

The insurance sector was 8.8% up if life endowment & compulsory property insurance excluded:

- In the first quarter of 2020, total insurance premiums increased by 19.7% compared to 2019Q1 and accounted for 240.8 mln. AZN. The net premiums (premiums minus claims) have experienced a 5.7% rise and accounted for 1.4% of the non-oil GDP (2019Q1: 1.5%). In the economy, this indicator is considered to be one of the main sources of investments;
- Based on the market segment analysis, total life insurance (LI) premiums have increased by 31.2% and made 67.6 mln. AZN. The share of LI premiums in total premiums of the market grew by 2.5 p.p. and comprised 28.1%;
 - Voluntary LI premiums increased by 46.5% and made 56.4 mln. AZN, while premiums of endowment LI increased by 57.2% YoY;
- Premiums of non-life insurance (NLI) have experienced a 15.7% rise. The share of NLI in total premiums has decreased by 2.5 p.p. to 71.9%;
- Claims to premiums ratio of the life insurance market was 53.3% (2019Q1: 30.7%), while this ratio was 23.7% (2019Q1: 20.3%) for the non-life insurance market.

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